

IN THE MATTER OF The Public Inquiries Act
being Chapter 258 of the Revised Statutes
of Alberta, 1955; and

IN THE MATTER OF an Inquiry into the ad-
ministration, management and financial
affairs of the Lethbridge Central Feeder's
Association Limited, and the general
operation in respect to the participation
of the members therein.

R E P O R T
OF
HIS HONOUR JUDGE L. SHERMAN TURCOTTE

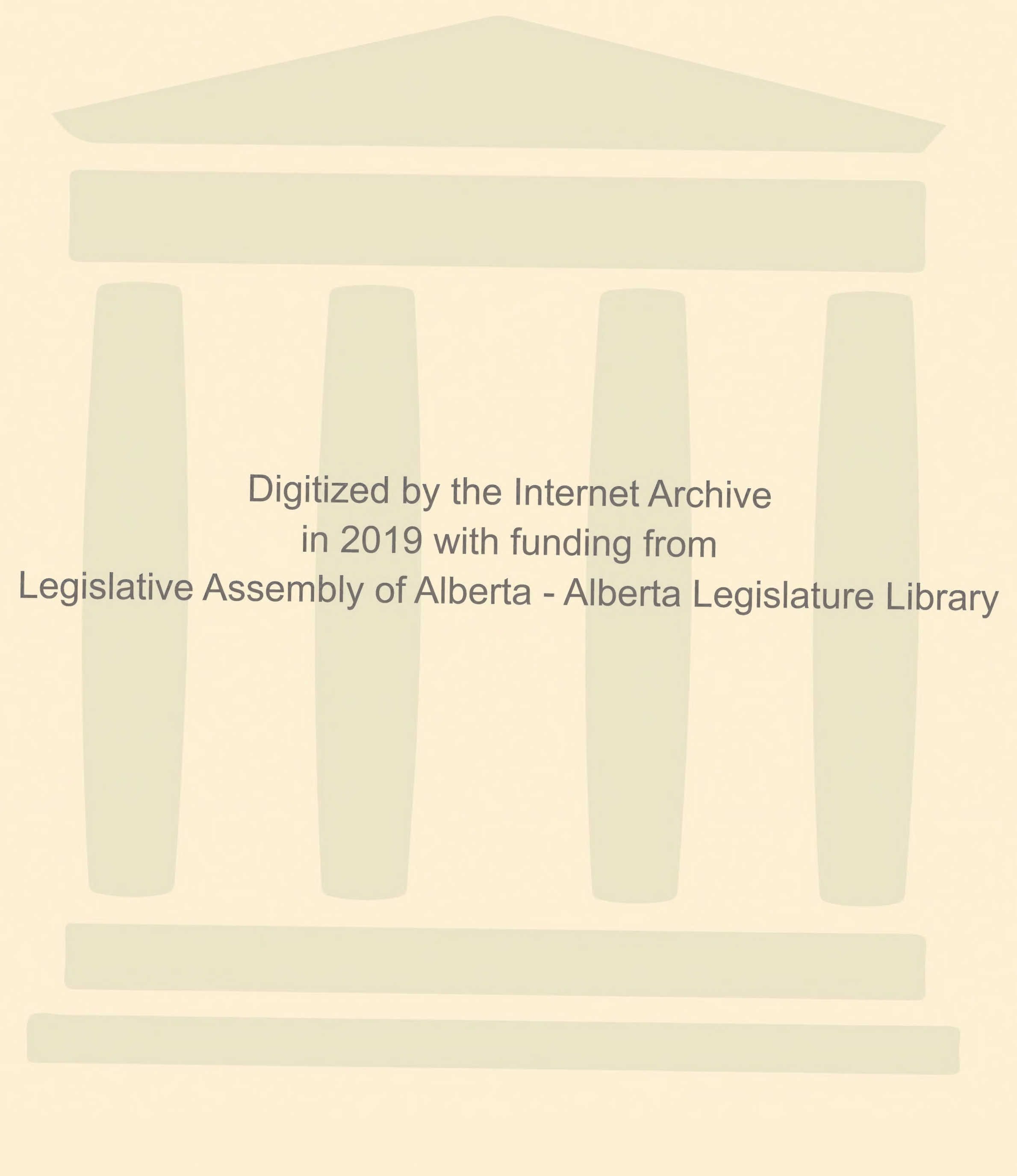
VOLUME I



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O.C. 1699/64

Approved and Ordered, upon the recommendation of the

"(Signed) J. Percy Page"

LIEUTENANT GOVERNOR

Edmonton, Friday, October 9th, 1964.

The Executive Council has had under consideration the report of the Honourable the Attorney General, dated October 9th, 1964, stating that:

WHEREAS section 2 of The Public Inquiries Act, being chapter 258 of the Revised Statutes of Alberta, 1955, provides:

"2. Where the Lieutenant Governor in Council deems it expedient and in the public interest to cause an inquiry to be made into and concerning a matter within the jurisdiction of the Legislative Assembly and

(a) connected with the good government of the Province or the conduct of the public business thereof, or

(b) that he declares by his commission to be a matter of public concern,

the Lieutenant Governor in Council may appoint one or more commissioners to make the inquiry and to report thereon.";

and

WHEREAS complaints have been received by the Government relating to the administration, management and financial affairs of the Lethbridge Central Feeder's Association Limited and the general operation in respect of the participation of the members therein;

and

WHEREAS this is a matter of public concern and it is deemed expedient and in the public interest to cause a public

inquiry to be made into the aforementioned matters:

THEREFORE, upon the recommendation of the Honourable the Attorney General, the Executive Council advises that His Honour Judge L. S. Turcotte be and is hereby appointed a commissioner to inquire into the administration, management and financial affairs of the Lethbridge Central Feeder's Association Limited and the general operation in respect of the participation of the members therein, and report thereon.

"(Signed) Ernest C. Manning"

CHAIRMAN

TO: The Honourable Ernest C. Manning
Premier and Attorney General
for the Province of Alberta.

In accordance with the provisions of the Order of the Executive Council 1699/64 dated October 9th, 1964, I submit my report as therein requested.

I was asked to:

"inquire into the administration, management and financial affairs of the Lethbridge Central Feeders Association Limited and the general operation in respect of the participation of the members therein and report thereon."

I was advised by letter dated October 22nd, 1964 that Mr. Alex W. Weir of the Department of the Attorney General had been appointed to act as counsel for the Commission.

I met with Mr. Weir on October 29th, 1964 at which time we discussed the procedure to be followed in the conduct of the inquiry. We had preliminary interviews with Mr. John A. Williams, of Williams, Tanner & Bell, auditors for the Association, and with Mr. Kenneth W. McLean, manager of the branch of The Canadian Imperial Bank of Commerce through which the banking business of the Association was transacted from and after January 1963.

A schedule of hearings was drawn up providing for public hearings to commence at the Court House, Lethbridge on December 14th and to continue through to and including Friday, December

18th. Provision was made to adjourn the hearings until January 4th, 1965 at which time they were to be resumed and continued until they were completed. It was hoped that the hearings would finish on January 15th, 1965 and they did.

In order to give all interested persons notice of the hearings, a notice in the form set out in the schedule attached hereto, was mailed to all shareholders of the Association. In addition a copy of this notice was published on three occasions in the Lethbridge Herald and in several of the weekly newspapers in the Lethbridge District.

Prior to and during the hearings Mr. Weir and I spent a great deal of time in interviewing Mr. Williams, Mr. McLean and Mr. Cliff Peterson, office manager of the Association. We spent a great deal of time in examining the books of the various divisions of the Association, in analysing and charting and comparing the several feeder accounts in which the greatest losses were sustained as well as the area of accounts in which the supervisor, Mr. S. W. Hatch was or might be interested.

In all 58 witnesses were heard and 137 exhibits were filed. Some of the exhibits, especially in the F series contained hundreds of invoices and the ledgers filed contained many thousands of entries. Nineteen hundred and forty one pages of evidence and submissions by counsel were taken by the Court Reporters.

The former supervisor and secretary treasurer of the Association was Stuart W. Hatch. Mr. Hatch was living at Riverside, California, at the time of the hearings. Mr. Weir wrote to

Mr. Hatch on two occasions asking him to attend the hearings and give evidence. He was told that his expenses incurred in attending the hearings would be paid. Mr. Hatch did not reply to either of the letters written to him by Mr. Weir. Mr. Hatch was represented at the hearings by M. E. Moscovich, Q.C.

In this report

"Association" means "Lethbridge Central Feeders Association Ltd."

"Board" means "The Board of Directors of the Association."

"Bank" means the "Royal Bank of Canada" until May 1960, the "Imperial Bank of Canada" from June 1960 to June 1st, 1961 and the "Canadian Imperial Bank of Commerce" subsequent to June 1st, 1961.

"Holding Pens" means "the Holding Pens Division of the Association."

"N.A.B." means "Non Association Business".

"Supervisor" means "the Supervisor of the Association" and refers to "Stuart W. Hatch" in transactions taking place after his appointment unless the reference is to "Supervisor of Co-operative Activities" the latter being a Government official.

CHAPTER 1.

LEGISLATION UNDER WHICH THE ASSOCIATION WAS INCORPORATED
AND UNDER WHICH IT CARRIED ON BUSINESS.

THE CO-OPERATIVE ASSOCIATIONS ACT

Chinook Feeders Association Limited was incorporated as a Co-operative Association on September 25th, 1942.

On October 21st, 1950, an Extra Ordinary Resolution was filed with the Registrar of Joint Stock Companies changing the name of the Association from "Chinook Feeders Association Limited" to "Lethbridge Central Feeders Association Limited."

This Co-operative Association was incorporated pursuant to the provisions of "The Co-operative Associations Act" being Chapter 66 of the Statutes of Alberta 1937. The Act was revised by Chapter 6 of the Statutes of Alberta 1946 and the latest revision of the Act is contained in Chapter 59 of the Revised Statutes of Alberta 1955. Several amendments have been made to the Act since 1955.

The objects of an Association incorporated under the Act are set out in Section 11 of the Act and read in part:

11. An Association may be incorporated for the purpose of conducting and carrying on a co-operative undertaking, business or industry, and, without limiting the generality of the foregoing, for one or more of the following purposes:

(a) purchasing, procuring, selling, exchanging,

- hiring and dealing in goods, wares and merchandise by wholesale or retail and preparing, producing, processing and manufacturing the same.
- (b) collecting, receiving, marketing and processing livestock, farm products or fish delivered to it by its members or patrons and handling, finishing, packing, canning, grading and storing the same, and manufacturing the same into other commodities.

The ancillary powers of an Association are contained in Section 12 of the Act.

These include:

- (a) The power to purchase, lease, hire and hold real or personal property that the association deems necessary or convenient for the purpose of its business and to sell, mortgage, lease or otherwise dispose of such property,
- (b) the power to construct and maintain all necessary works and buildings,
- (c) the power to acquire other businesses of a nature within the power of the association,
- (d) the power to acquire shares in a company or association with similar objects,
- (j) the power to borrow money,
- (l) the power to take or hold mortgages, hypothecs, liens and charges to secure payment of the price

- of any part of the property of the association sold by the association or any money due to the association from purchasers and others,
- (p) the power to enlarge the area of its operations by establishment of branches or other means,
 - (s) the power subject to subsection (2) to accept money on deposit from its members for future purchase of goods or services by the members,
 - (t) the power to become a member of a credit union registered under The Credit Union Act,
 - (v) the power generally to carry on and undertake a business that seems capable of being conveniently carried on in connection with the business of the association or calculated to enhance, directly or indirectly, the value of or render profitable any property or rights of the association,
 - (w) the power to do all or any of the above things as principal, agent, contractor, or otherwise and by or through trustees, agents, or otherwise and either alone or in conjunction with others.

From the foregoing objects and powers set out in the Act, it is apparent that a co-operative association has very wide powers in carrying on its activities.

But there are two very serious limitations on these powers. Section 14 of the Act reads as follows:

"No loan shall be made by an association to a member

or director unless the association is specifically empowered by extra ordinary resolutions to make such loans."

Section 2(d) of the Act reads as follows:

"'extraordinary resolution' means a resolution passed by a majority of not less than three-fourths of such members or delegates entitled to vote as are present in person at a general meeting of which not less than ten days' notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given".

Section 30 of the Act reads as follows:

"Except as otherwise provided in this Act no association shall sell goods, wares or merchandise to its patrons or customers on credit or in any other manner than for cash."

Section 31 provides for the sale of goods, wares, and merchandise on credit;

- (a) if the property remains in the association until the purchase price is paid and if the agreement is registered under The Conditional Sales Act, or
- (b) sales to a government, municipality or institution operated by a municipality.

Section 32 provides that an association that has working capital in excess of five thousand dollars may by supplemental by-law authorize the selling of goods on credit. No association can exercise this power until permission to do so has been given by the Supervisor in writing. The section further

provides that at no time shall there be owing to the association as a result of credit sales an amount in excess of two-thirds of the amount of the working capital as shown by the previous year's audited annual report.

"Working capital" is construed to include share capital, debenture or bond indebtedness, general reserve fund, deferred dividend or participation reserves, and undistributed surplus or deficit accounts.

Section 33 provides that an association that sells goods, wares or merchandise on credit in a manner not authorized by sections 31 and 32 or that pledges the credit of the association in a way prohibited by this Act, and every director and officer of the association is guilty of an offence.

Section 25 governs the power of the association to make contracts. Subsection (3) is important and reads as follows:

" A contract that, if made between private persons, would be valid by law, though made by word of mouth only and not reduced into writing, may be made on behalf of the association by a writing not under seal, signed by a person acting under the authority of the association."

Section 16 reads in part:

"(1) With the approval of the Lieutenant Governor in Council the Supervisor (of Co-operative Activities) may from time to time prescribe standard by-laws not inconsistent with this Act and any standard by-laws so prescribed shall be the by-laws of each association to

which this Act applies, subject, however to such modifications or changes with respect to a particular association as may be made by supplemental by-laws of the association.

(6) No supplemental by-law shall become operative until it has been approved by the Supervisor and filed with the Registrar.

(7) If there is a conflict between the provisions of a by-law of an association passed prior to the 27th day of March 1946, and a provision of the standard by-laws, the provisions of the standard by-laws prevail until the Supervisor has approved in writing the by-law of the association that so conflicts and upon the approval being given the last mentioned by-law prevails."

Section 19 reads in part:

"No person shall become a member of an association until his application for membership has been approved by the directors and he had complied with the by-laws governing admission of members."

Section 22 reads in part:

"(8) The directors may by resolution, appoint such managers and other officers as they deem necessary for the conduct of the affairs and business of the association and may define their duties and fix their remuneration."

Section 21 reads in part:

"(8) At the close of each fiscal year the association shall

submit accounts for audit by an auditor appointed in the manner prescribed by the by-laws, but the auditor appointed shall first have been approved by the Supervisor."

The Act contains the usual sections dealing with management, administration, directors, meetings of the association, withdrawal of members, returns to the Supervisor of Co-Operative Activities.

THE STANDARD BY-LAWS

The Standard By-Laws are contained in Alberta Regulation 132/57 published in The Alberta Gazette dated October 15th, 1957.

A review of these by-laws does not reveal any material changes from the Articles of Association adopted by the Association in 1942. The only significant change is that the Standard By-Laws now provide that a quorum for a general or special meeting of the Association is one-tenth of the registered members instead of one-fifth as originally provided for in the Articles of Association.

Section 8 of the Standard By-Laws and Clause 10 of the Articles of Association of this Association read as follows:

"(a) At the first general meeting of the association and subsequently at each annual meeting, an Auditor shall be appointed by the members. The name of the Auditor appointed shall be submitted to the Super-

visor for his approval. In the event the Supervisor not approving the nominee for any reason, and in the further event of the association failing to nominate another who is approved by the Supervisor, then the Supervisor may appoint an Auditor who shall thereupon be the Association's Auditor for the ensuing year.

(b) At the close of each fiscal year and prior to the holding of the annual meeting of the association, the books of the association shall be closed and the auditor shall have access to all the books and accounts of the association, and shall examine the General Statement of Receipts and Expenditures, Funds and Effects of the Association and verify the same with the accounts and vouchers relating thereto, and shall either certify the same as found by him to be correct, duly vouched and in accordance with the law, or specially report to the association and to the Supervisor in what respect he found any entry or account to be incorrect, unvouched for or not in accordance with the law.

(c) The report of the Auditor shall be presented at the annual meeting of the association, and one duly certified copy shall be forwarded to the Supervisor of Co-operative Activities, as well as any special form of return which may be required under the Act."

The Standard By-Laws contain an additional sub-clause (d)

which reads:

"The fiscal year of all Associations incorporated under the Co-operative Associations Act of 1955 shall close on the 31st day of December in each year."

SUPERVISOR OF CO-OPERATIVE ACTIVITIES

The Act provides for the appointment of a Supervisor of Co-operative Activities by the Lieutenant Governor in Council.

The powers and duties of the Supervisor are contained in Section 53 of the Act and include:

- (a) examination of the material presented on the application of a proposed association and conferring with and advising the promoters and approving or refusing to approve a memorandum and by-laws for registration,
- (c) To confer with and advise with persons interested in an association or the directors of an association and generally provide and encourage the development of a co-operative enterprise,
- (d) upon requisition by 10 members or 10 per cent of members of an association or upon order of the Minister, hold an inquiry into the affairs of the association, and report to the Minister,
- (e) receive and consider all returns made by an association and complete statistical reports therefrom,
- (f) make a general report to the Minister.

CHAPTER II

INCORPORATION, MANAGEMENT AND ORGANIZATION

INCORPORATION

The Chinook Feeders Association Limited was incorporated as a Co-operative Association on the 25th September, 1942.

The first object of the Association as contained in the Memorandum of Association reads as follows:

"3(a) To engage in and encourage the purchase and marketing of all classes of livestock, which, without limiting the generality of the foregoing shall include in this Memorandum, cattle, horses, sheep and swine, through co-operative means and methods and thereby or otherwise to minimize the cost of purchasing and selling its members' produce and to obtain the best possible price for the same and to enter into and carry out contracts with its members for the marketing of its members' livestock and with other persons for the disposal thereof upon such terms and conditions as may be deemed advisable; and to engage in the general business of dealers in livestock, either as principal or as agent, broker, factor or attorney in fact.

The Memorandum of Association contained further objects such as:

"3(b) To undertake and carry on all kind of business,

operations and activities connected with or incidental to the purchasing, feeding, marketing, selling, grading, sorting, storing and handling of livestock and generally to further the interests of breeders and feeders of livestock,

- (c) to acquire or hire all kinds of supplies, machinery and equipment relating to the purchase, production and marketing and to provide for the sale or hire or for the extension of the use of the same to its members,
- (d) to borrow and raise money in such a manner as the association shall think fit----
- (e) to advance money to its members on the security of their real or personal property upon such terms as the Directors may deem expedient,
- (h) to carry on any other business which may seem to the association capable of being conveniently carried on in connection with the purchase, production and marketing of livestock, or calculated directly or indirectly to enhance the value, or render profitable any of the association's property or rights,
- (p) to do all or any of the above things in any part of the world and as principals, agents, contractors, trustees or otherwise and either alone or in conjunction with others.

The Memorandum of Association also contains the following provisions: The number of shares are unlimited; The capital

is to consist of shares of \$500.00 each or such other amounts as from time to time to be determined by the rules and by-laws of the association; The number of directors shall be seven.

The Articles of Association contained the rules for governing the internal management of the association.

Provision was made for a charge of five cents per head for all sheep or lambs and fifty cents per head for all cattle obtained or marketed and such further fee per head as might be necessary to meet supervision costs.

Provisions were made for setting up a reserve fund, payment of interest on paid up capital and patronage dividends.

The Memorandum and Articles of Association were signed by fourteen farmers residing in Southern Alberta. Mr. H. G. Houlton and Mr. D. L. Paxman signed the Memorandum and Articles of Association. It is interesting to note these gentlemen were President and Vice-President respectively of the Association in the month of March, 1964.

MEMBERSHIP

Membership in the Association was open to persons wishing to use the credit facilities of the Association in obtaining cattle for the purpose of fattening them for market.

The applicant for membership gave a financial statement which was considered by the Board of Directors and by the Bank officials. Sometimes a member of the Board or an employee of the Association inspected the premises and facilities of

the applicant.

If the Board accepted the application, the Board also set a limit of credit which was to be extended to the applicant.

The applicant became a member by paying the sum of \$500.00 for one share in the Association. He then signed a contract. In theory both of these things should have been done before or at the time the applicant received his first cattle from the Association. In practice on many occasions, the \$500.00 was not paid or charged to the applicant until the auditor debited the member's ledger card with the amount. Also there were times when difficulty was experienced in obtaining a signed contract.

CONTRACT

Until the year 1960 when a member signed his contract he also signed a promissory note for the amount of the contract. For a period of time prior to 1960 a member also signed an additional promissory note for an amount equalling ten per cent of his contract. I presume that this additional note was considered as a guarantee against loss by the Association as a whole. The notes were endorsed to the Bank.

A copy of the contract adopted in 1960 is included in the Appendix of this report. The contract is headed "Live-stock Feeding Agreement".

The Whereas Clauses of this contract are important.

They are:

"Whereas the Association has livestock for feeding purposes.

And Whereas the Feeder represents that he has proper facilities and feed to feed livestock."

The main clause of the contract reads:

"Now this Indenture Witnesseth that in consideration of the Association agreeing to provide livestock for the Feeder to feed, the Feeder hereby covenants and agrees to accept the said livestock for feeding purposes under the following terms and conditions."

Then follows 17 terms and conditions.

1. Livestock includes increase of livestock delivered to the feeder.
2. A receipt of livestock signed by the feeder or his employee or agent is conclusive evidence of the delivery of the livestock.
3. The term of this Agreement shall be for a period of 12 months from to
4. The total value of the livestock to be provided by the Association shall not exceed \$
5. The location of the livestock.
6. The feeder agreed to sign a guarantee bond in favour of the bank limited to 10 per cent of the value of the livestock covered by the agreement less \$500.00.
The feeder agreed to the assignment of the contract

and the membership fee to the bank.

7. The feeder agreed to pay interest at the agreed rate on the value of the livestock delivered to him.
8. Upon the sale of the livestock the Association will pay to the Feeder the net proceeds thereof less any amount owing by the Feeder to the Association. If the proceeds of the sale of livestock are not sufficient to pay any amount owing by the Feeder to the Association in full, then the Feeder agrees to pay such deficiency with interest from date of such sale.
9. Title and ownership of the livestock and increase remains in the Association and the livestock shall be branded with the Association brand.
10. The Feeder is responsible for any loss or injury to the livestock and shall notify the Association of any such loss or injury.
11. The Association insures livestock in transit at feeder's expense.
12. The Feeder pays all charges and expenses in connection with livestock, including transportation, feeding enroute, commissions by buying and selling.
13. The feeder will feed livestock properly and will follow instructions given by Association in regard to caring for and feeding livestock.
14. The livestock shall be marketed by the Association

as it sees fit and the feeder will deliver the livestock to the Association on demand.

15. The Association may inspect premises of feeder at any time.

16. The feeder will indemnify the Association against all claims by third parties.

17. The Agreement is for benefit for and is binding on heirs and assigns of parties.

The contract was signed by the feeder and the officers of the Association. The feeder signed the guarantee before a Notary Public. The contract was assigned by the Association to the Bank.

In reading the remainder of this report, please remember that:

1. There is no mention in this contract of any money being advanced by the Association to the feeder for feed or for any purpose whatsoever.
2. The contract contained a clause providing for a definite limit on the value of the livestock to be provided by the Association.
3. The contract was for a period of twelve months only.
4. The cattle belonged to the Association and were to be branded with the Association brand.

THE BOARD OF DIRECTORS

The affairs of the Association were governed by a Board of Directors consisting of seven members. They were elected at the annual meeting of the members, with three members retiring one year and four members retiring the next year.

Immediately after the annual meeting the Board met and elected a President and Vice-president as well as appointing a Secretary Treasurer.

The Board of Directors met each month in the office of the Association. An examination of the minutes of the meetings held throughout the years shows that the members of the Board were most faithful in holding meetings each month and in attendance thereat. There was also a good continuity of membership on the Board. Five members of the 1956 Board were members of the 1963 Board.

The Board employed a supervisor to manage the business of the Association. In practice the Supervisor was also appointed Secretary Treasurer of the Association.

The office staff consisted of the Supervisor, Office Manager and secretarial staff. The Board also employed fieldmen who had many duties in the purchase of cattle, delivery of cattle to the feeders, taking them back when they were fat, etc. An office building situated at the stockyards in Lethbridge was constructed. The cost of it and the office and field equipment amount to about \$19,000.00.

PURCHASE OF CATTLE BY THE ASSOCIATION

The Association were advised by members of their requirements in the way of feeder cattle. The association purchased these cattle:

- (a) at auctions,
- (b) through agents of the Association,
- (c) directly from a rancher or farmer.

The cattle were then branded with the registered brand of the Association, the main brand being the  cleaver brand.

The office prepared an invoice from the weigh scale tickets (if these were available). The vendor of the cattle was paid by Association cheque which was honoured by the Bank. The cattle were delivered to the feeder. When the copy of the invoice was handed to the feeder, the additional charges covering trucking, branding, commission, etc., were added to the purchase price of the cattle. The total was entered as a debit in the member's ledger card.

MEMBER'S LEDGER CARD

A copy of the ledger card is included in the appendix of this report.

It is noted that in addition to containing columns for "details", "Folio," and "debit", "credit" and "balance" for money entries, the card also contains columns covering the

THEORY OF THE EARTH

The theory of the earth is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its features, and to determine the time and place of their occurrence.

THE EARTH'S HISTORY

The history of the earth is a record of the changes which have taken place in its structure and composition since its origin. It is a story which is written in the rocks and the fossils which they contain. The history of the earth is a story of growth and development, of change and progress, and of the forces which have shaped the world as we know it.

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livestock involved including "kind", "in", "out", and "balance". If these entries had been kept up, the ledger card would have shown, at all times, the number of cattle in the possession of the feeder.

The card also had a space at the bottom to show the "contract limit". If this space had been used, persons entering items on the card would have been warned when the limit was exceeded. In the examination of many hundreds of cards I never saw one card in which the contract limit had been written on the card.

SALE OF CATTLE

After the cattle were fattened, the feeder returned the cattle to the Association for the purpose of having them sold. On sale an invoice was prepared showing details of sale including the number and kind of cattle, their gross and net weights, price per cwt. and the amount. The Association received the selling price from the buyer. Then the Association entered the charges for commission, trucking, etc., on the feeder's copy of the invoice. The resulting amount was credited to the member's ledger card.

This was a very simple system and worked very well. The entries in the ledger cards were confined to cattle going on feed, cattle sold, cheques for advances on partial sales, cheques for settlements to the feeders, a few debits for

The first of these is the fact that the

second of these is the fact that the

third of these is the fact that the

fourth of these is the fact that the

fifth of these is the fact that the

sixth of these is the fact that the

seventh of these is the fact that the

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twenty-first of these is the fact that the

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supplies, etc. Even interest charges up to the year April 1962 were deducted on settlements before the settlement was entered in the ledger.

In some cases cattle were sold to the Association by one member and placed with another member for fattening. Journal entries were used for the purpose of making proper entries in the ledger cards of both members.

NON ASSOCIATION BUSINESS-N.A.B.

As time went on the Association acted as selling agent or purchasing agent for non members. Also occasions arose in which members carried on livestock transactions through the Association but not using the credit facilities of the Association.

Another set of ledger cards was set up to cover this business which became known as "Non Association Business (N.A.B.)".

A copy of this ledger card is included in the appendix. There is no provision made on this card to keep track of the number of cattle coming in on feed or going out on sale. It was not the intention to use the N.A.B. ledger for the purpose of recording feeding transactions in which borrowed money from the Bank was used. (Evidence of T. B. Campbell XII-1821).

The transactions between the Association and the feeders in the early history of the Association were on a short term

basis. A number of cattle were placed on feed, were fattened, were sold and the feeder received his cheque in settlement. The usual feeding arrangement was for winter feeding, then credit was obtained for summer feeding. But until 1960 when a change of banks occurred, the bank kept the two seasons of feeding in different columns of its accounts. The Association used a colour for its summer feeding contract different from the winter feeding contract.

THE BANK

During the fall of the year the Board, the Supervisor and the Bank officials would meet. They would discuss the credit limits for each member and these would be set and as a result an overall credit for the Association would be set. As new members were accepted during the year individual credits would be established for them. When the year end of the Association changed from July 31st to December 31st in 1961, then the credit meeting above described was changed to the spring of the year.

The Association at its beginning had no assets. Gradually as the number of members grew, the \$500.00 membership received from each member contributed to the assets of the Association and on December 31st, 1963, this asset amounted to \$80,219.06.

Private reserves which will be referred to later in this

report were established. These amounted to \$143,067.54 on December 31st, 1963. The private reserves and a substantial part of the membership shares were invested in bonds and on December 31st, 1963 these bonds were valued at \$199,170.00.

The Association earned its income, in the main, by commissions charged to members on the purchase of cattle for feeding purposes, and on the sale of the fat cattle. Income was also earned on bond interest and a differential of 1/2 of 1 per cent between the interest charged to the feeders on their contracts and the interest charged by the Bank.

On this slender financial base, without any general reserves or reserves for bad or doubtful accounts, with no working capital to speak of, a huge cattle feeding and cattle trading business was built up based solely on borrowed money, on bank credit.

In the year ending December 31st, 1963, the Holding Pens Division of the Association purchased cattle to the value of \$2,775,643.19. On December 31st, 1963 the Association owed the bank the sum of \$2,819,514.03.

CHAPTER III

HISTORY OF THE PERIOD 1950-1958.

The reports to the annual meeting covering the year ending July 31st, 1951 included statements that the Association had purchased cattle for feeding in that year to the value of \$4,942,814.94 and had sold finished cattle to the value of \$5,688,051.51. The members had debits in their ledger cards covering the value of cattle in their possession in the amount of \$1,208,936.58. These figures indicate that the Association was carrying on a very large and successful co-operative undertaking.

In reading the minutes of the meetings of the Board of Directors of that time, evidence is found that the Board exercised care in conducting the business of the Association. Each application for membership was carefully considered as well as applications for increases in contract limits. The accounts, including travelling expenses, for the previous month were presented to the Board at each monthly meeting and approved. The President signed the minutes.

The question of giving advances to members before all cattle were sold worried the members of the Board. At a meeting on September 11th, 1950, the auditor, Mr. Williams, suggested that a request be made to the bank for a plan under which the giving of advances might be legalized.

At the general meeting of members on October 20th, 1951,

a motion was adopted that each account must be liquidated once a year instead of prior to the 30th of June.

The minutes of the Board meetings in 1951 also mentioned the trouble experienced in having all Association cattle branded with the Association's brand.

The first evidence of discontent with the attitude of the bank of the Association, the Royal Bank of Canada, is noted in 1951.

The Board applied for bank credit in the amount of \$4,500,000.00. The bank authorized a credit of \$2,730,000.00. This was unsatisfactory. Meetings were held with officials of the Bank of Montreal who refused to take on the account.

Then disaster struck. The outbreak of an epidemic of Foot and Mouth Disease caused the United States and the Provinces of Canada to impose embargos on the transportation of cattle across boundaries. The market, in large part, disappeared overnight and it was many months before normal sales were resumed.

The members of the Association suffered heavy losses. Of 134 members as of July 31st, 1952, 25 suffered a loss of \$77,000.00 after all cattle in their possession were sold. 50 members paid out and 59 members had cattle on hand. The total debits in the members accounts were \$1,043,330.77. Many years were to elapse before the final loss to the Association was definitely established.

This serious situation had a very sobering effect on the

members of the Board and the officials. This is best illustrated by quoting from some of the reports at the annual meeting of the members held on September 29th, 1952, at which 91 members were present.

THE PRESIDENT:

"To make our program of feeding safer for ourselves, and more attractive to the bank, always have ample feed requirements on hand, or the equivalent to purchase the same, free from encumbrances. This is a must in feeding."

THE SUPERVISOR - Mr. C. O. Asplund:

"I have frequently stated that had the Association accumulated reserves of \$400,000.00 or \$500,000.00 over the good years we would have weathered the storm without scarcely knowing it had happened. ----

I believe that this is the most serious mistake we have made and believe we should take definite action to cure this weakness without delay."

THE AUDITOR - Mr. John A. Williams:

"With the sad experience of this year it has been very forcibly demonstrated that it is desirable to build up reserves as quickly as possible.

'We wish to urge that this matter of reserves may have the utmost consideration from the incoming Board and general support from the membership."

The President's report also contained a statement on a situation which was to occur from time to time during the life of the Association. The supervisor and a cattle dealer were carrying on private livestock transactions. The supervisor agreed to sever these private livestock dealing connections and conform to the requirements of the Board and the Bank. However, the name of the same livestock dealer was to be mentioned in later years in reference to similar transactions with the new supervisor.

At the Board meeting held immediately after the annual meeting in September 1952, Mr. H. G. Houlton was elected President. He remained in that position until March 1964.

On October 22nd, 1952 the supervisor C. O. Asplund resigned. Stuart W. Hatch had been employed in the office of the Association for some time. He was appointed supervisor and secretary-treasurer of the Association.

The question of reserves was discussed at several meetings of the Board in 1952-1953 and at the annual meeting of the members in September 1953 with 46 present.

The following are excerpts from the annual reports given at the meeting in September, 1953.

THE PRESIDENT - H. G. Houlton:

"Your credits are set by your Board of Directors and the Bank on an individual basis, and are available to you whenever you are ready to use them. For those members whose credits are temporarily restricted, we are offering

contract feeding. Particulars can be obtained from your supervisor.

' There seems to be a misunderstanding in the minds of some of our members with regard to the status of ownership of cattle they get through the Association. It must be remembered that they are the property of Lethbridge Central Feeders Association Ltd. and are subject to the feeder contract signed by you. Read your copy of the contract carefully and if there is anything in it you do not understand, ask for an explanation

' The branding of the cattle delivered to you is very important. When the cattle are delivered without the Association brand, please arrange to have it done at once, for your own protection as well as for that of the Association. Calves dropped from cows and heifers under contract are the property of the Association and should be branded with the Association's brand at the proper time or when ordered to be done by the supervisor or staff members."

THE SUPERVISOR - Stuart W. Hatch:

"We have some accounts, however, which are causing us considerable difficulty in our negotiations with the bank.

These are:

- (1) The cow and calf account which does not fit into our organization and is a long term proposition. These are slated for liquidation at the earliest possible time.

'Let me again emphasize that our organization is not equipped to carry accounts which do not liquidate at least once a year.

'One of the basic needs of any co-operative is an adequate reserve system. You are all acquainted with those systems of the more successful co-operatives. We would have been in a much stronger position today had we established a system of reserves 12 years ago in this company. This need will be dealt with in the meeting tonight as we feel the time is ripe.

'Let me state that we have available some feeding contracts for those feeders who need supplemental credit. Those contracts are on a guarantee basis and you can understand would be on a very small margin."

THE AUDITOR - Mr. John A. Williams:

"All members accounts have been thoroughly reviewed with the Supervisor and the Board of Directors and in their considered judgment authorized no provision for a reserve for loss thereon to be established out of this year's operation as any provision for loss would have required an assessment on the membership. As no loss has been specifically determined at this date the Board felt that any provision which may be required should be provided when the loss is finalized.

'Advances very largely on behalf of the staff exist as of the year end in the amount of \$4,402.62. These

accounts are being systematically liquidated."

In speaking of individual membership reserves the Auditor said:

"However as this money is purely trust money for the specific purpose of a member's own account, it does not tend to meet the under capitalization of the Association for its own capital requirement."

A special reserve for each member was set up on the basis of deducting $3/4$ of 1 % from the proceeds of the sales of cattle fed by each member. These reserves were to be held for ten years and then retired at the rate of 10 per cent each year for 10 years. This resolve was not adhered to in all cases. Each member's reserve was to be used to secure his individual account and not used as joint security.

This system of reserves had the effect of strengthening the credit position of each member. As the years went by the reserves grew to substantial proportions. However, as pointed out by the auditor they were not particularly effective in creating an asset which would strengthen the financial position of the Association, as a whole. The deductions during the next year placed \$5,477.83 in this reserve fund.

I have attached a chart in the appendix showing certain items in each of the years 1951 to 1963. This chart will be useful in making some comparisons during the course of this report.

The chart shows that bank credit was drastically curtailed. The Supervisor informed the members that contracts for feeding

cattle were available with a payment of 20 cents a pound gain on cattle and a 4 cent spread on lambs. This arrangement enabled members to feed cattle supplied by other persons and without money being borrowed by the Association from the bank.

This method of operation which supplemented the ordinary financing through the bank was to be a great boon to some members of the Association, especially for the next four years.

But when the Association came to the time when it supplied money through its bank credit to pay the cost of feeder cattle on contract and then paid for the feed to feed these contract cattle, in reality this meant that certain members were exceeding their credit limits by tremendous amounts, cattle, debits and credits were juggled from membership accounts to contract accounts and back again. This was one of the contributing factors leading to the financial collapse of the Association.

The members of the Board became very dissatisfied with the policy of the Royal Bank during the next twelve months.

At one meeting the Directors discussed the possibility of a revolving credit with the bank and a committee was appointed to see the bank officials.

Two weeks later a member of the Board was appointed to interview the Bank of Toronto officials and an interview was held with a representative of that bank from Winnipeg.

In August 1954 the Supervisor was given negotiation

powers to go in search of financial assistance and it was suggested that perhaps the bank loans could be divided between the Bank of Montreal and Bank of Nova Scotia.

In his report to the 1954 annual meeting of shareholders, President Houlton said in part:

"Our biggest handicap during the past year has been the lack of money to purchase cattle. Our own overall credit has been greatly reduced thus curtailing our total operations. We have blamed and criticized the bank for this drastic reduction in credits, but a part of the blame, and perhaps a large part, can be blamed on our delinquent members. The most of whom have shown no concern over their debt to the Association. We have come to the point where their lack of concern and responsibility is choking our operations and the time has come for the board to employ the most drastic measures for collection.

'There must be a thorough and clear understanding of the feeders contract which you sign, and the conditions in the contract to which you agree must be faithfully observed and adhered to."

The Auditor, Mr. John A. Williams, said:

"It is appreciated that some very sizable losses may eventually be incurred in the final realization of these old accounts. However, it is not practical to provide for that at this time."

The auditor reported that less than half of the members had verified their accounts in response to requests from the auditors.

In January 1955 the Board applied to the bank for a credit of \$250,000.00 to be used in feeding on summer pasture. A month later the Board decided to apply to another bank if this credit was not forthcoming.

At the Board meeting of February 15th, 1955 a statement was included in the minutes showing the disposition of the \$936,000.00 owing to the Association on November 1st, 1952.

\$ 26,000.00 collected by Royal Bank financing
\$ 85,000.00 collected by independent financing
\$ 32,000.00 collected by contract feeding
\$ 33,000.00 collected by cash payments
\$540,000.00 collected by sales of livestock
\$220,000.00 remaining unpaid

Relations between the board and the bank improved temporarily. Pasture credit was provided.

At the annual meeting of the members held on October 8th, 1955, the following excerpts are taken from the annual reports.

THE SUPERVISOR-Mr. Stuart W. Hatch:

"There has been a continuity of our available credit facilities since this time last year. This involved pasture credit throughout the summer and an early interim credit this fall for our winter feeding. We do not as yet have a revolving credit supervised by the

Association but through co-operation of our bank much red tape has been done away with and renewed credits are quickly obtained.

'Our association with the bank has been most pleasant this year and many tiring hours have been put in by those concerned to make this operation work more smoothly.

'The purchase of large quantities of feed for credit places the feeder in a vulnerable position and that should be avoided."

THE AUDITOR - Mr. John A. Williams:

"Approximately \$54,000.00 of old 1951 accounts remain to be liquidated. It is possible that in the final liquidation of these old accounts a loss of \$25,000.00 to \$30,000.00 may be experienced.

'At the year end the Association finds itself in a much improved position and on the verge of emerging from the dark cloud which settled over its affairs with the break in the market in 1951. However, the transactions of the Association continue to require careful management."

On the same day as the Annual Meeting, namely October 8th, 1955, the auditor, Mr. Williams, wrote a letter to the President, Mr. Houlton.

In that letter Mr. Williams stated that he had found that the supervisor Mr. Hatch and an employee of the Association named D. L. Nilsson had received a share of the profits

on several contract feeding deals between a livestock dealer S. Kline and several feeder members of the Association. These payments by Mr. Kline to Hatch and Nilsson on the several transactions amounted to \$8,501.30 which had been split evenly between Hatch and Nilsson, each receiving settlements of \$2,497.38 and \$1,753.27.

The auditor pointed out that if staff member's financial returns have any relationship to a member's livestock settlement, the situation was not in the best interest of the Association.

Mr. Williams went on to say in his letter that Hatch undertook to discontinue associations and arrangements of this nature henceforth. Mr. Williams further stated that Hatch gave his pledge to the President in this regard at an interview on September 30th, 1955.

Both Mr. Nilsson and Mr. Kline gave evidence to the effect that Mr. Hatch broke this pledge in 1959.

The evidence of Mr. Williams in regard to this transaction is found in (II 176-179).

It is difficult to know whether this situation was presented to the whole Board although there is this minute in the minutes of the Board Meeting on October 5th, 1955.

"At this point the Supervisor left the meeting and a discussion was held in regard to Board-Supervisor relations between the Board and the Auditor."

The feeding of cattle on a contract basis was used

Secondly, the document outlines the procedures for reconciling accounts. It states that accounts should be reconciled on a regular basis, typically at the end of each month. This process involves comparing the internal records with the bank statements to identify any discrepancies and resolve them promptly.

Thirdly, the document addresses the issue of budgeting. It suggests that a well-defined budget is essential for managing the organization's finances effectively. The budget should be based on realistic assumptions and should be reviewed regularly to ensure it remains relevant and accurate.

Finally, the document concludes by stressing the importance of transparency and accountability in financial management. It encourages the organization to maintain open communication with stakeholders and to provide clear, concise reports on its financial performance.

extensively in the years 1954 to 1957. Cattle to the value in excess of \$300,000.00 were fed on a contract basis by members of the Association in each of those years with the peak year being 1955 when \$382,861.73 was financed in this manner.

It was agreed that the President should maintain a closer supervision of all operations and in November the President reported to the Board that everything was in order.

The chart shows that the Association enjoyed a good year in the feeding season of 1955-1956. As a result the Directors gave serious consideration to the question of reserves to cover the 1951-1952 loss.

1956 ANNUAL MEETING

The annual meeting was called for September 15th, 1956. There was no quorum. It was set again for November 16th, 1956. Again a quorum of members did not show up and the result was that the annual meeting was not held.

However, extracts from the unread annual reports should be noted:

THE SUPERVISOR - Stuart W. Hatch:

"In actual fact some of the livestock which were contracted were financed by the association.

'We have had pleasant associations with the Royal Bank of Canada, and confidence is established that this is a

sound business working on a sound footing."

THE AUDITOR,-- Mr. John A. Williams:

"The amount outstanding on the old 1951-1952 accounts from the Foot and Mouth period included in the above amount is now \$119,046.75.

'It is expected that in the final realization of these accounts a loss of \$50,000.00 will be experienced.

Your Board has for a long time been gravely concerned as to how to face this loss and since the year end has undertaken to establish a reserve in the following manner.

1. Immediately charging 152 individual memberships \$125.00 each. (The method of bringing the individual membership back up to an active figure to be an individual arrangement between each member and the Board of Directors.)
2. Assessing the members \$25,000.00 on a basis of the business done with the association in 1951-1952. (The loans of that year are considered to provide the most equitable basis of the assessment.)
3. The balance of the \$50,000.00 is obtained by a charge to the operations of 1955-1956.

'The affairs of the Association are in a very healthy state. The only dark spot is the necessity of facing up to the loss which is still hanging over us from 1951-1952 year. It will be considerable relief to everyone when this has been put behind us. The staff of the Association are

doing a very fine job. Your Board is providing strong leadership and exercising careful management of the Association's affairs. Continuing careful management is vitally important."

In the feeding year of 1956-1957 a transaction with Stienbergs of Montreal was entered into. This was a separate contract signed by five members of the Association including Horace A. Jones. Stienbergs agreed to pay for the cattle and for the feed required to fatten them. The five feeders agreed to feed and fatten the cattle.

It was a term of the contract that these feeders would not fatten any other cattle in their feeding lots. The Royal Bank supplied the financing.

In December 1956 the manager of the Royal Bank wrote a letter to the Association containing very strong statements. The manager said that he had been informed that Jones was feeding cattle in addition to the Steinberg cattle and this must cease and that he had been assured that none of the other feeders were feeding other cattle.

About 1,900 head of cattle were fed under the terms of this contract with Jones feeding 500 head from September 1956 to June 1957. The cattle were placed on feed at a value of about \$350,000.00. Large quantities of feed were purchased and placed with the feeders.

Steinbergs became dissatisfied and ceased the purchase of fattened cattle. The feeders were supposed to have a large

amount of feed on hand, somewhere in the neighbourhood of a value of about \$40,000.00.

According to the evidence of the auditor, Mr. Williams (I 118) this was supposed to have been charged to the feeders. This was not done and the Supervisor told the auditor that about \$26,000.00 was actually lost on the contract. A system of misrepresentation was cleverly instituted which was followed through and this loss in reality grew year by year as it remained concealed in the books with interest accruing each year.

The result of the Steinberg deal was a heavy loss to the Association both in money as well as all the work in buying cattle, feed, etc., supervising the transaction and then shipping the fattened cattle to Steinbergs for which commissions were charged but lost.

In the audited statement of assets and liabilities dated July 31st, 1957 an asset item appears as "Advance to Steinberg account \$18,794.63". The item does not reappear the next year.

Returning to the reports given to the shareholders at the 1957 Annual Meeting held on September 21st, 1957, the following are some excerpts.

THE PRESIDENT - H. G. Houlton:

"Our staff in every department has done a job which your Board of Management are well pleased and we have the utmost confidence in them. They too have a duty to perform which is charged with trust and requires the

utmost in honesty and integrity. We take this opportunity to congratulate them in their good work.

'You are members of the most unique and successful feeding and marketing organization in the Dominion of Canada.'

THE SUPERVISOR - Stuart W. Hatch:

"This brings up a point that I would like to mention to contract feeders who are feeding for so much a pound, and that is, that every 10 cent rise in feed grain should demand an additional one cent a pound for the gain and higher feed costs could certainly make this 21 cent per pound contract a more difficult one to break even on.

'It would be well to mention here the Royal Bank of Canada, and the pleasant relations which we have had with their manager and staff throughout the past year.'

THE AUDITOR - John A. Williams:

"As of the year end the members' Accounts Receivable on carryover of cattle were \$668,006.64. In the course of our examination we have reviewed the accounts carefully and also endeavoured to have the members confirm their balances direct to us. Only 44 members returned the confirmations to us thus verifying in this manner only 48 per cent of the total. We can only assume that the unconfirmed balance of the account is satisfactory as the opportunity to dispute their accuracy was not taken care of."

The auditor went on to point out that reserves of \$40,856.17 had been set up to cover the 1951-1952 losses as a result of the Board's endeavour to set up a reserve of \$50,000.00.

In concluding his report the Auditor said:

"The fact that we have now faced up to and provided for the major portion of the old accounts on which some loss may be experienced has tremendously enhanced the stature of the Association. Your staff are doing a conscientious job and your Board are exercising strong leadership and strong management of the Association's affairs."

ANNUAL MEETING 1958:

The annual meeting for the year ending July 31st, 1958 was called for November 15th, 1958. There were not sufficient members attending to constitute a quorum. The Annual Report was mailed out to the members. The President in his report referred to the friendly and pleasant relationship with the bankers and "We appreciate the service we receive from them".

The supervisor mentioned the carryover figure of \$828,000.00 showing the trend towards more summer feeding. He mentioned that he was unable to obtain contract cattle for the members. He said:

"Our relationships have also been good with our bank, The Royal Bank of Canada, and the members could do much

to assist in keeping these relationships good by responding quickly to requests for new financial statements and by coming in and signing contracts shortly after their cattle are delivered."

THE AUDITOR - Mr. Williams:

"Only 43 members returned the confirmations to us thus verifying in this manner only 48 per cent of the total.

'It now appears that eventually a reserve of \$58,000.00 will be required thus an additional provision of \$17,000.00 will be necessary in the years ahead. No provision was made during the present fiscal year.

'The Association's fiscal affairs continue in a very healthy state."

It is strange that the Steinberg deal was not mentioned in any of the annual reports to members in 1957 and 1958. Although the cash loss was not to become apparent until 1964, yet Association employees had spent part of their time for a year on this transaction for a hoped for benefit to five members and the Association had lost thousands of dollars in uncollected commissions.

Only one dissenting voice was heard. Mr. E. L. Green had been elected a director at the annual meeting on September 29th, 1952.

In August 1956 he wrote three letters in the course of four days to the President. In his letters he protested the

method in which the Steinberg deal had been set up for the benefit of four members, etc. He said he felt that the Board had lost control of the affairs of the Association.

Mr. Green resigned at the annual meeting held on September 21st, 1957.

The minutes of this meeting referred to the resignation of Mr. Green in the following words:

"Ed Green asked four or five questions of Mr. Hatch and Mr. Williams after which he submitted his resignation to the President."

On the next day Mr. Green wrote a letter to the manager of the Royal Bank. He set out his numerous reasons for his resignation.

One was that Hatch had admitted at a director's meeting on September 18th, 1957 that advances of \$5,000.00 were being used by himself and Don Nilsson to purchase or help pay for their homes.

The minutes of the Board Meeting of September 18th, 1957 contains the following minute:

"Mr. John A. Williams then gave the Steinberg statements and then he reviewed the Lethbridge Central Feeders Statements. On motion arising from the statement by Rulon Dahl, that the advances be discontinued to the staff and that the present outstanding balances be placed on a reasonable collection basis that will not be embarrassing to the staff members concerned."

The auditors statement for the year ending July 31st, 1957 showed the following asset:

"Accounts receivable - re Advances \$6,789.10."

The amounts charged to Hatch and Nilsson were \$1,992.16 and \$2,400.87 respectively.

The casual way in which this situation was handled, was, in my opinion, one of the many causes of later trouble. The normal employee or official receives a salary. Ordinarily he does not have the privilege of helping himself to more money. The casual way in which the Board dealt with these advances - "Don't do it again and take your time about paying back" - led to a feeling of contempt for the Board on the part of the Supervisor and this feeling was to be shown in many ways in the following years.

One of the results was an item on page 16 of the Auditors Special Report on August 10th, 1964 which reads as follows in reference to the account of S. W. Hatch:

"Advance Account \$5,043.12."

The following is a journal entry made by the Auditor on July 31st, 1957:

"July 31	Dr. Cattle acct. 81	\$9,313.54	
	Cr. Accts. Receivable		\$9,313.54

To adjust latter account to trial balance at year end.

Task of specifically identifying items too difficult for time at our disposal.

Above adjustment equitable. However, ledger to be maintained from here on so that this difficulty will not be faced again."

My understanding of the evidence given by Mr. Williams at the Inquiry is that this cattle account was never balanced after that date (I 136); that he was not sure what would be found if a thorough investigation was made into it (II 138-139); and that it would take two auditors three months to do the job (II 139).

There is an auditor's journal entry on July 31st, 1958 setting up interest charges totalling \$767.69 on six N.A.B. accounts. This is an example of an entry paving the way toward the acceptance of the use of N.A.B. accounts in transactions using borrowed money and finally to a confused use of N.A.B. ledger cards to hide the true status of the membership accounts of some members.

In summary of the period 1950-1958, the chart shows that the sales of cattle fed by Association members had increased from the low point in 1953 of \$1,511,633.46 to \$2,840,854.85 in 1958. The Association had successfully weathered the crisis created by the Foot and Mouth Disease embargos. The deficit caused by the crisis had been paid off except for \$17,000.00.

Several rules had been laid down in the annual reports for the conduct of members including:

1. Sign your contract. (Hatch 1958)
2. Remember the cattle in your possession are the property of the Association. (Houlton 1953).
3. Understand the terms of your contract and live up to them. (Houlton 1954)

4. Brand the Association cattle. (Houlton 1953)
5. Confirm your balances with the auditor. (Williams - every year).
6. Liquidate each feeding transaction within a year. (Hatch 1953).
7. Always have feed on hand, or the equivalent, free from encumbrances. (Houlton 1952)
8. Never borrow money for feed. (Hatch 1955)
9. Be careful to check your feeding costs on contract feeding. (Hatch 1957).
10. No cow calf operations to be financed with Association money. (Hatch 1953)
11. Be honest. (Houlton 1957)

If all members and employees had lived up to these rules during the next five years, the Association would never have encountered any difficulties and would have been in a flourishing condition today.

Although the method of setting up private reserves was not an ideal one from the point of view of the general stability of the Association, I am sure that their presence would have been sufficient to cushion any minor dislocation in the market price and other factors affecting the feeders.

CHAPTER IV

HISTORY OF THE PERIOD 1959-1964.

It is impossible to write a narrative covering this period. The manipulations of records and of accounts are so involved that each account will have to be treated separately if one is to obtain a clear picture of what happened.

That is what I intend to do. But before entering on a discussion of the separate accounts, I will give, as best I can, a short history of the Association during these five years.

I note that commencing January 1st, 1959 the accounts covering salaries, office expenses and travelling expenses were no longer presented to the directors for approval at their monthly meetings.

On April 14th, 1959 the Board and the Supervisor forgot the Supervisor's injunction against cow calf transactions.

The Supervisor advised the Board that he was organizing a stock cow company and described its functions as a rental agreement on cows. On June 15th, 1959 on motion of Keeler and Paxman the Board approved this operation provided Hatch be a shareholder only, not active in management and that all business be transacted through the Association for which a commission will be paid by the Company.

In the year ending July 31st, 1959 sales of cattle fed by members increased to \$3,156,685.17; the indebtedness to the

bank at the year end was \$1,201,023.29. There were 178 members and this was the high point in the number of members in the Association.

In his auditor's statement for the year, Mr. Williams said:

"The Association's fiscal affairs continue in a very healthy state. The largest problem still carried into the future is how to provide for the further loss of approximately \$16,000.00 required to finalize the old 1951-1952 accounts."

The year 1959-1960 was an important one in the history of the Association. The bank from which the Association borrowed its money was changed from the Royal Bank of Canada to the Imperial Bank of Canada.

This account was a very large one and a very profitable one. I have quoted many statements by the President and the Supervisor in which tribute was paid to the Royal Bank, its manager and staff.

Actually the supervisor thought he was being treated by the bank officials as a small boy (X 1537); that he was being two-bitted to death (IV 567); that he couldn't do anything else hardly except answer the telephone (IV 546).

On April 26th, 1960 the Board authorized the Supervisor to approach the Imperial Bank on the basis of \$15,000.00 discretionary limit for Board on new members and all other conditions the same as we presently enjoy.

On May 10th, 1960 a motion was carried unanimously that we "proceed with negotiations to transfer the account to the Imperial Bank from the Royal Bank."

The change-over took place on June 1st, 1960.

In this report to the annual meeting on November 25th, 1960, President Houlton said

"During the past year we found it necessary in the best interests of your association and for its expansion to change our banking service. After a great deal of discussion for and against this move, and after your Board came to a unanimous decision on the matter, we switched from the Royal Bank of Canada to the Imperial Bank of Canada where we are allowed more latitude in our operation. We have been able to accept more new members and I want to give them a sincere welcome into the Association."

In his report the Auditor state that seven new members had been added and 43 had left the Association during the year so that the membership decreased from 178 to 142 and three members owed \$1,200.00 on their memberships.

The auditor further pointed out that only 38 members had returned verification slips on their accounts. He said:

"The onus for the ineffectiveness of this procedure falls squarely on the members who do not co-operate with us."

The auditor stated that the old 1951-1952 accounts not provided for were \$30,605.73. A provision for doubtful accounts in the amount of \$5,000.00 was charged to current operating costs.

This very strange item appeared in the minutes of the Board of Directors meeting held on June 14th, 1960. It read as follows:

" The supervisor reported that the bank recognizes feed advances, but it is not the intention of the Board or the staff to notify the membership of this. It is still their responsibility to put up 100 per cent of the feed."

The meaning of this statement is very obscure. It did not state who was to decide when feed advances might be given or on whose authority. But the meaning was not obscure in the mind of the Supervisor. In his mind as is shown by his subsequent course of conduct, this statement gave him a free hand in the matter of feed advances. He proceeded to use this discretion in a high if not wide manner, in respect to feed advances to certain members.

For example, cheques in the amount of \$98,369.00 were issued in payment of feed supplied to Mehew from March 5th, 1959 to March 1964. (The Supervisor had anticipated this declaration by more than a year).

Another example is the issue of 21 cheques to feed suppliers of Ray Nelson from December 18th, 1961 to August

13th, 1962 in the total amount of \$22,483.15.

The failure of the Board to provide very definite and stringent rules governing advances to members for feed unwittingly provided the Supervisor with a discretionary power to disburse the funds of the Association in a manner which was the major contributing cause of the collapse of the Association in less than four years time.

For the year ending July 31st, 1960, sales of fat cattle amounted to \$3,313,905.24. the Association owed the Bank \$1,114,812.15 and the members had debits in their ledger cards in the amount of \$910,649.73 at the end of the year.

The end of the financial year was changed from July 31st to December 31st so that the next financial period of the Association was of 17 months duration and ended on December 31st, 1961.

On August 8th, 1960 the Supervisor asked the Board for permission to carry a cattle inventory for the purpose of wintering calves. Approved. In ink "maximum 500 head". This approval by the Board gave the supervisor an opportunity to winter calves in the winter 1963-1964. The result was a \$20,000.00 loss.

On the same day the fieldmen Nilsson and Anderson were given co-signing authority on cheques with the President, Vice-President, Supervisor and Office Manager. This was not too important but it created many more combinations of cheque signers.

A new form of contract was adopted in which promissory notes were deleted. Instead each member signed a limited guarantee in favour of the Bank for an additional 10 per cent over and above the amount of his debit in any year.

A commission firm was incorporated to be known as Lethbridge Central Marketing Limited. The Association held all the shares issued, 7 in number. The firm was to act as an auction agent whose revenue was to be derived from commissions on auction sales as well as some direct buying and selling.

I have no record of this subsidiary in 1961. In 1962 it suffered a loss of \$1,801.51. In the year 1963 it suffered a loss of \$10,709.26 on sales of \$1,709,917.38. It was estimated that there would be a further loss of \$4,500.00 until it ceased business in 1964.

The Association embarked upon another venture in 1961. This was known as the Holding Pens. Land was purchased in an area two miles east of the Lethbridge Stockyards. Collecting and holding pens complete with automatic scales, branding and dehorning equipment were built at a total cost of \$62,955.32. After the operation of the Holding Pens was commenced, cattle were purchased by the Association through the Holding Pens and then sent out to the member feeders. It was now possible to hold cattle in the pens for a few days; to divide them among different feeders; or to create a group for a feeder from purchases from different vendors.

A separate set of books was established for the Holding Pens. An inventory memo record was then maintained showing the entry of cattle into the books of the Pens and their exit to the different feeder accounts. By a system of cross references all cattle were kept track of in this manner.

In addition the Supervisor without the knowledge of the Board or the bank had created an embryo of a Trucking Division. The results were disastrous as will be shown later in this report.

The Board also set up a life insurance fund to be maintained by a deduction of \$200.00 and in the following year of \$160.00 from each members account.

In his report to the members of the Annual Meeting held on April 11th, 1962 (attended by 38 members), the Supervisor said:

" The year just past will go down as one of the most important in the history of the organization.

'In the past Lethbridge Central Feeders has been a co-operative devoted solely to the feeding of cattle and operating on a non profit basis.

'You members are now the owners of these two ventures intended to return earnings to the members as well as for rendering a service to them.

'We estimate that it (the Holding Pens) will pay for itself in not more than three years.

'What is more important, however, is the fact that in each of those three years we will save the membership an accumulated amount equal to its entire cost.

'Our livestock handlings for the members for the year consisted of 3 1/2 million in purchases and 4 1/2 million in sales. Non Association purchases and sales totalled 1 1/2 million and other business by the commission firm 1 3/4 million. Total handlings of 11 1/4 million dollars cattle and sheep bought and sold over a period of 17 months."

On September 11th, 1963 the following minute appears in the Minutes of a meeting of the Board.

"Keeler-Reynolds' - move we go into the hog business with Wayne Smith".

The minutes of the meeting of the Board of Directors held on September 11th, 1962 are the last minutes of any meeting of the Board signed by the President or any other member of the Board until the minutes of a meeting held on June 4th, 1964 are signed.

In October and November 1962, the Board discusses the possibility of obtaining more money from the bank so that credits for production of livestock may be increased to meet the demand for the two packing plants in Lethbridge.

In his report read at the Annual Meeting of members held on March 30th, 1963 with 45 members present, the Supervisor reported as follows:

Total sales for the year	\$4,638,000.00
Total purchases for the year	3,221,900.00
Due from feeders at end of year	2,268,000.00
Non -member business	2,288,000.00
Interest from non-members	4,000.00

The Association acted as buyers for one of the Packing Plants from May to December but this arrangement was ended.

In October of 1963 the Board apparently had applied to the Bank for an additional \$500,000.00. The bank refused the application because of lack of capital, the contract limits were being exceeded and some cattle were not branded.

The Board therefore decided that effective immediately the Association "will require a membership fee equal to 10 per cent of the advances made from all present members and new applicants.

"Present members may be allowed to transfer their private reserves into membership funds, and where this combined amount is insufficient they are given until the end of their respective current feeding period to bring their membership up to 10 per cent maximum time allowed to be 12 months."

This motion was moved by Keeler-Stevens. Carried unanimously.

In his report for the year ending December 31st, 1963 the Auditor estimated a total loss of \$844,689.19. This will be discussed in detail as the accounts of the members and others which contributed to the loss are discussed.

The Auditor pointed out in his report that eight member-
ships had been accepted in 1963 without the Directors'
approval being recorded in the minutes. Also eleven member-
ship fees of \$500.00 each and fourteen members reserves
totalling \$8,704.09 had been paid out without approval
being expressed by the Board in the minutes of their meetings.

The bank loan with accrued interest on December 31st,
1963 was \$2,819,514.03. The amount carried in the debit
balances of the members was \$2,614,593.17.

CHAPTER V

DETAILED EXAMINATION OF
CERTAIN LEDGER ACCOUNTS

Before entering upon a discussion of the events occurring in 1964, I will now review some of the records covering the accounts of members and others, the results of which led to the loss of hundreds of thousands of dollars.

As the account of V. L. Burke was the one which led to disclosures causing the collapse of the Association, I will start this detailed examination with his account.

VIRGIL L. BURKE

Mr. Burke lives at 624 - 20th St. S., Lethbridge, Alberta. He was a livestock dealer and commission buyer. He had a feed lot on land near Coalhurst, Alberta, a few miles north west of Lethbridge.

The name of V. L. Burke was presented to the Board as a member on the 13 September 1960.

The decision of the Board was recorded as follows:

"On motion of Keeler and Stevens the application of V. L. Burke was rejected on the basis he does not qualify under Association rules."

In spite of this resolution the supervisor issued cheque #D 728 on 14 December 1960 in favour of V. L. Burke in the amount of \$15,000.00 and this cheque was deposited to the credit of V. L. Burke in his account in the Royal Bank of Canada.

This item was charged to a ledger account opened in the name of V. L. Burke in the N.A.B. (Non Association Business) ledger. The voucher shows no invoice number but states as follows:

81 cows	\$15,000.00
37 heifers	
30 days interest $6\frac{1}{4}\%$	

(signed) V. L. Burke

From this it would appear that Burke intended to repay this amount in 30 days.

But Burke said that this meant, "Every 30 days I would make a payment" (V 649); and he would pay it back "as soon as possible" (V 650).

Mr. Burke stated that he received this loan on December 14th, 1960 in return for his promise to market hogs sales through Central Marketing Sales, the commission firm of the Association (V 654-655).

The Minutes of the meeting of the Board of Directors on January 3rd, 1961, contains the following:

"The supervisor reviewed the commission firm's preparations according to the enclosed draft. Motion by Dave Keeler seconded by Pat Stevens that we proceed with the organization as drafted. Carried."

and at the meeting of the Board on February 13th, 1961, the following minute is recorded:

"There was a complete discussion of the organization of the Commission Firm as it was finalized and approved by the Board."

The Auditor stated in his annual report that the firm was set up in February 1961.

It would therefore appear that, according to Burke, this loan of \$15,000.00 was made to him on December 14th, 1960, in return for his support of a firm which was set up finally in February 1961.

Burke repaid \$1,000.00 on each of the days February 28th, March 31st, April 27th, May 31st, July 5th, so that his

indebtedness was \$10,000.00 on July 10th, 1961.

The minutes of the Board of Directors record the following resolution at the meeting on July 10th, 1961:

"Virg Burke's application for membership be accepted and a limit of \$25,000.00 be placed on the account."

and again on August 15th, 1961, the minutes recorded that the supervisor reported from the minutes on the Virgil Burke account that "it was unlikely that he would be using the limit set. Report accepted."

There is nothing in the minutes to indicate that the Board of Directors knew that on the day they accepted Burke as a member, namely July 10th, 1961, they had been doing business with him for more than six months and that he owed the Association \$10,000.00.

On August 1st, 1961, Burke repaid a further sum of \$1,000.00. On August 30th, 1961, he borrowed \$3,000.00 in cheque #1143 which was deposited in his account in the Royal Bank of Canada. There are no particulars on the voucher giving any reason for this loan. On September 8th, 1961, Burke repaid \$4,000.00 leaving a balance owing of \$8,000.00 on the original loan of \$15,000.00.

In the meantime Burke had incorporated Burke Livestock Ltd. under the Companies Act of Alberta on July 13th, 1961. The shareholders were Virgil L. Burke with 151 shares and his brother Patrick O. Burke with 149 shares. Both were directors of the company.

Although Mr. Burke carried on all his business from that time on in the name of the company, he continued to deal with the Association in a personal capacity.

On October 25th, 1961, the Association issued Invoice No. 8739 showing that it has placed with Burke for feeding, 127 steers at a net weight of 105,855 lbs. at \$20.54 a cwt., for a total price of \$21,822.61 including commission of \$80.00. This is shown in settlement #8739. This settlement was entered in Burke's N.A.B. ledger account. On November 15th, 1961, this amount of \$21,822.61 was transferred by Journal Entry V 186 J86 to a new membership ledger account B 4. Strange to say the old balance of \$8,000.00 was left in the N.A.B. ledger account.

On January 30th, 1962 the records show that the Association sold 48 steers for Burke's account for a net credit of \$11,623.55.

On February 28th, 1962, the Association issued cheque #2111 in the amount of \$11,000.00 in favour of V. L. Burke. Burke deposited this cheque in the account of Burke Livestock Ltd. in the Royal Bank of Canada.

Voucher L2111 covering this \$11,000.00 mentions 132 cattle but no weights or description of the cattle are given nor where they came from.

There is a memo in the ledger at this time that the auditor debited the account with the membership fee of \$500.00 as of December 31st, 1961.

On April 11th, 1962, the balance of \$8,000.00 which had remained dormant in the N.A.B. account since November 15th, 1961,

suddenly reappears and by journal entry V 252 is charged to Burke's membership account.

I can find no record that interest was charged in the original loan of \$15,000.00 which had been made to Burke on December 16th, 1960, and had remained at \$8,000.00 since November 15th, 1961. The Association paid interest to the Bank on these amounts. It appears that the Association suffered a loss in excess of \$1,000.00 in this manner which does not appear on the books of the Association.

On June 28th, 1962, Burke was debited with \$11,768.00 and a memo on the voucher shows a purchase by him of 50 cattle. On July 17th, 1962, he sold 25 steers at a net weight of 22,680 lbs. for \$24.85 a cwt. for \$5,635.98 gross and \$5,593.48 net.

On September 29th, 1962, he sold 25 steers for \$6,174.52. These three transactions make an odd balance. There are no weights or price per cwt. on the last invoice. The total of the two sales is the exact amount of the purchase of 50 cattle on June 28th, 1962. It is strange that the last sale of 25 steers brought the exact balance owing on the purchase of 50 cattle on June 28, 1962.

After these credits were entered, the account of Burke stood at \$31,194.58 and there is a memo in the livestock balance column of the ledger account that he had 205 head of livestock on hand.

On the 29th of November, 1962, the Association gave a cheque to Burke in the amount of \$10,000.00, which cheque was

endorsed and deposited to the credit of Burke Livestock Ltd. There is no memo as to the reason for issuing the cheque.

There are no large items in the account after this date until September 1963 when a credit of \$1,355.82 is entered covering the sale of 22 calves.

Burke's explanation of these transactions is as follows:

"The Central Feeders never did at any time buy an animal on my behalf for feeding purposes. I did my own buying and my own selling." (V 682)

The contract which he signed with the Association was insignificant.

"It was a piece of paper put in front of me to sign to verify credit that I was getting, or to cover it up, whatever you want to call it." (V 657)

The \$11,000.00 cheque was put into Burke Livestock Ltd. "to make my cheques good." (V 658)

"The \$11,768.00 was given to me in June too - how will I put this - given to me to help me with my bank account, and I was to pay it back as early as possible, which I did." (V 661)

"THE COURT: Why the \$768.00?

A Because they took a figure of so many head of cattle at so many dollars a piece." (V 661-662)

The \$10,000.00 cheque had nothing to do with the livestock business when it was given to Burke. (V 659) Burke was going to

buy a house in Calgary, 328 - 18th Ave. S.W., for \$15,000.00 through his family and make a profit on resale. He didn't have the money. (V 660) Hatch gave him the money. The deal did not go through. Burke did not return the money. He put it in the bank account of Burke Livestock Ltd. and used it. (V 660-661)

"Q Was Hatch to get something out of the house deal?

A Well you want to know if he was to receive anything from the sale of this house.

Q Yes?

A Yes, he was. He was to get---it was up to my discretion of course."

"A No, I was to make the profit and if I felt like I should give something I would give it to him, which he realized that I would do if I made a good profit on it." (V 678)

Burke stated that his verbal agreement with Hatch was that he, Burke, was to have a free hand to buy and sell cattle any time he felt like it as far as he was concerned in his feed lot and also his cattle did not necessarily have to be branded with the cleaver brand. (V 662) He never branded any cattle with the cleaver brand before March 1964. (V 669)

During the period October 1961 to March 1964, Hatch reported to the Bank on the Burke account as follows:

March 31/1962	31,531.75	(180)
November 30/1962	41,531.75	(205)
March 31/1963	30,579.99	(205)
July 31/1963	33,460.45	(205)
December 31/1963	33,602.20	(183)
January 31/1964	33,914.39	(183)

The bank manager of the Canadian Imperial Bank of Commerce therefore believed when he received the last report from Hatch sometime in February 1964 that there were 183 cattle belonging to the Association in the possession of Burke with the cleaver brand on them.

Mr. MacLean drove by the Burke feedlot on a day early in March 1964. He stopped and examined the cattle. He could see 3 or 4 cattle there with the cleaver brand. Returning to Lethbridge he telephoned Hatch informing him of this fact. Hatch said he was sure the cattle were there. (III 362-365)

According to Burke, Hatch came out to Burke's feedlot on a Friday. Hatch asked Burke how many cattle he had with the cleaver brand on; that Burke had to get more cattle in there with the cleaver brand because there had to be cattle to cover the account. (V 667) Hatch informed him that he must have these cattle branded by Monday or the lid was going to blow off. So Burke instructed his brother to brand 128 cattle with the cleaver brand, which was done. (V 670)

Mr. MacLean came back with Mr. Hatch a few days later and saw that 132 cattle had the cleaver brand on them and some of the brands looked fresh. (III 364) Mr. MacLean returned to Lethbridge. He was not satisfied with what he had seen. He telephoned the auditors and the GROSS DECEPTIONS related in Chapter VII of this report were discovered.

57 of these steer calves with the cleaver brand were purchased by Alex Harsany from Burke on March 12, 1964. (V 684)

When he sold them on September 16th, 1964, \$7,695.00 being the cost to him of the calves was sent to the Provincial Treasurer. This money was in the hands of the Provincial Treasurer at the time of this Inquiry. (V 688-689) Commission Counsel had reason to believe that the balance of the cattle with the cleaver brand had been sold by Burke to Andy Harsany. The evidence given by Andy Harsany did not establish this. (V 689-697)

The minutes of the meeting of the Board of Directors held on September 9th, 1964, contains the following minute:

"Stu explained the Burke-Harsany deal as follows.

Last fall when cattle were inspected there were 111 cleaver cattle at Burke's feedlot. In the spring when he and Mr. MacLean inspected the feedlot there were only about 41. When Stu talked to Burke about it, he was told to come back the next day which they did and counted about 132 cattle with a cleaver brand. Some were subsequently sold to Canada Packers and Harsany received the money. Burke claimed later that they were Harsany's cattle and Harsany had let him put the cleaver on them. The balance of the cattle are now on the Harsany ranch (approx. 48 head)."

The conclusions drawn from the series of transactions with Burke are:

1. In utter contempt of the decision of the Board in refusing membership to Burke on September 13th, 1960, Hatch gave a cheque to Burke on December 14th, 1960 for \$15,000.00.
2. The Board of Directors showed little sense of responsibility

as a Board governing the affairs of a co-operative feeding association in reversing its decision in admitting Burke to membership on July 10th, 1961. There was no place in this co-operative association for a livestock dealer and commission merchant whose main source of income was dependent, as he said, on a rapid turn over of cattle.

3. Hatch continued to deceive the Board and the Bank throughout his dealings with Burke. He recklessly gave cheques to Burke covering large sums of money in contravention of the purposes of the Association. According to Burke, he was given \$10,000.00 for the purpose of buying a house and then reselling it with a view to a profit in which Hatch was to participate.
4. Hatch carried on his efforts at deception to the end and enlisted the assistance of Burke in fraudulently branding cattle with the Association brand with a view to carrying on the fraudulent deception of his employers and of the Bank from whom these large sums of money were obtained.

The result - A loss of over \$40,000.00 caused primarily by the deceit of the supervisor.

RAY NELSON

Ray Nelson lives in the Village of Stirling which is situated about 20 miles southeast of Lethbridge. He operated a dry land farm consisting of 229 acres of which 120 acres were cultivated and he farmed 27 acres of irrigated land situated some distance from the dry land farm. As noted above Mr. Nelson did not live on his farm.

He joined the Association prior to 1950 and was a member continuously until the collapse of the Association.

This account has been examined in detail commencing with the morning of July 31st, 1959. This was the year end of the Association at that time. The account showed a debit of \$32,960.25. During that day the following journal entry was made:

Dr. Ray Nelson & Meats Inc. N.A.B. N18	\$22,861.05	
Cr. Ray Nelson		\$22,861.05
Transfer of cattle		

In addition to the N.A.B. Ledger Card "Ray Nelson and Meats Inc." there were two other N.A.B. cards in existence, namely:

Ray Nelson	N.A.B. N20 with a debit of	\$4,224.17
and R. Nelson & S. Kline	N.A.B. N14 with a debit of	\$4,531.93

So in the evening of July 31st, 1959, Nelson's total debits were:

Ray Nelson - Members Ledger Card N 4	Dr.	\$10,099.20
Ray Nelson & Meats Inc. N.A.B. N18	Dr.	22,861.05
Ray Nelson N.A.B. N20	Dr.	4,224.17
Ray Nelson & S. Kline N.A.B. N14	Dr.	<u>4,531.93</u>
	Dr.	\$41,716.35

Nelson's contract limit was \$10,000.00.

Exhibit B 1 filed by a witness from the Royal Bank of Canada contained a statement supplied by the Association to the Bank of the debits and other information concerning the accounts of all members.

The statement showed that the debit in Nelson's account of July 31st, 1959 was \$9,998.72 and that the high point of his borrowings for the previous year was \$10,344.96.

Now, it is true that the financial statement for the year ending July 31st, 1959, contained the following asset:

Sundry debtors - accounts receivable - Livestock
settlements \$123,092.76

And it is also true that the above mentioned N.A.B. accounts of Nelson were contained in the total.

But one wonders what the Royal Bank officials would have thought if they had known that Nelson owed personally and on contract cattle, an amount in excess of \$40,000.00 when his contract limit was \$10,000.00.

Evidence of T. B. Campbell -

"No one was entitled to credit facilities unless they had a membership." (XII 1819-1820)

The evidence given by Mr. Campbell at (XII 1822-1823) showed that the Bank did not approve of the use of bank money to purchase contract cattle which had the effect of raising the total indebtedness of a member above his contract limit.

It is impossible to combine the four Nelson accounts in

one narrative. I therefore propose to give details of his members ledger account N4 and then at the conclusion give short narratives of the three N.A.B. accounts.

As pointed out, the balance in Nelson's ledger card N4 on the evening of July 31st, 1959 was \$10,099.20.

Immediately thereafter between August 19th and September 15th, 1959, 136 steers and 58 heifers were sold at a net price of over \$38,000.00 and these sales were credited to Nelson's main ledger account N4. Some of these sales were obviously the result of sales of contract cattle but the item-

"sale of contract cattle" in the amount of \$18,084.74 was not debited to the account N4 until May 3rd, 1960.

In the meantime large purchases of cattle were made and placed on feed with Nelson and very large advances in cash were made to him.

An examination of the results of some of the years in which Nelson fed cattle will show the absurd transactions which took place in this account and the absurd method of bookkeeping.

In the fall of 1959 the following steers were placed for feeding with Nelson:

Oct. 7	108 S	@ 22.63	\$ 18,038.65
26	88 S	@ 22.85	14,368.61
28	<u>3 S</u>	@ 22.50	<u>503.13</u>
	199 S		\$ 32,910.39

In the spring of 1960 these steers were sold as follows:

March 31	47 S	@ 21.99	\$ 11,064.74
May 3	30 S	@ 22.25	7,594.94
June 6	44 S	@ 22.83	11,006.85
June 28	35 S	@ 21.08	8,311.85
July 2	<u>37 S</u>	@ 22.46	<u>9,509.76</u>
	193 S		\$ 47,488.14

A Gain of \$ 14,577.75

In addition the following credits are shown:

April 14, 1960 - Contract steers - Weiler Williams	\$ 2,055.48
June 14, 1960 - Contract steers - Weiler Williams	3,033.24
July 15, 1960 - Journal entry re Weiler Williams	1,551.48
July 27, 1960 - Weiler Williams 1305.93 - 505.08	<u>800.25</u>
	\$ 22,018.20

But in the meantime cash advances to Nelson and payments to other people for his account were as follows:

December 4, 1959 \$ 3,000.00	March 10, 1960 Christensen	\$ 3,000.00
January 2, 1960 2,500.00	April 11, 1960 Christensen	<u>1,080.00</u>
January 25, 1960 3,000.00		\$ 4,080.00
March 4, 1960 4,000.00	To self	<u>24,700.00</u>
April 14, 1960 1,200.00		\$ 28,780.00
April 26, 1960 1,500.00		
May 3, 1960 3,000.00		
May 10, 1960 <u>6,500.00</u>		
		\$ 24,700.00

The excess of debits over credits on Nelson's feeding operations during the fall, winter and spring of 1959-1960 was

\$6,761.80.

But actually Nelson should have come out about even had it not been for the advance of \$6,500.00 on May 10th, 1960. This had nothing to do with the feeding of cattle. Nelson obtained this money from Hatch for the purpose of obtaining title to his land. (V 710-712)

In June of 1960 the following heifers were placed with Nelson for feeding:

June 8	55 H	@ 19.10	\$ 6,749.72
June 16	<u>29 H</u>	@ 18.38	<u>3,536.88</u>
	84 H		\$10,286.60

These were sold for:

September 13	60 H	@ 21.00	\$ 10,230.55
October 25	16 H	@ 19.50	2,400.97
November 5	<u>7 H</u>	@ 19.08	<u>1,335.60</u>
	83 H		\$ 13,967.12

A Gain of \$ 3,680.52

Plus Nov. 10, 1960 72 cattle on
21 cent gain contract from

Elmer Wilde	<u>5,533.50</u>
	\$ 9,214.02

But in the meantime advances to Nelson and payments to other people on his behalf were as follows:

June 28, 1960	\$3,000.00	June 17, 1960 Brandley	\$ 581.00
Sept. 2, 1960	<u>3,000.00</u>	June 17, 1960 G.A.Christensen	1,430.90
	\$ 6,000.00	July 15, 1960 Thompson	407.55

Cheques to others	\$ 4,529.00	July 15, 1960 Thompson	\$ 128.15
	\$10,529.00	Aug. 2, 1960 Brandley	423.50
		Aug. 22, 1960 L. Bodnaruk	250.00
		Aug. 22, 1960 J. Bodnaruk	463.70
		Sept.13, 1960 J. Bodnaruk	<u>844.20</u>
			\$ 4,529.00

The result - An excess of debits over credits of \$1,714.98.

In the fall of 1960 the following animals were placed with Nelson for feeding:

September 19	44 S	@ 17.73	\$ 4,567.25
15	<u>99 H</u>	@ 17.75	<u>11,313.90</u>
	143		\$15,881.15

Nelson's contract limit was now \$15,000.00.

These were sold for:

December 19, 1960	19 H	@ 19.02	
	plus 7 cows		\$ 4,384.27
January 2, 1961	30 H	@ 20.50	4,887.75
February 2, 1961	11 S	@ 19.75	
	32 H		5,407.72
February 21, 1961	<u>49 H</u>	@ 20.18	<u>8,057.30</u>
	146		\$ 22,737.04

A Gain of \$ 6,845.89

It is to be noted that the Association cattle have been mixed with contract cattle. The heifers sold exceed the heifers placed on feed while the reverse is true in the case of the steers.

There was an item January 25, 1961, Elmer Wilde
Cattle J 75 Cr. \$3,883.95 but this
item was reversed on August 24, 1961 under Journal entry 83.

The advances in cash to Nelson and payments to other people
on his behalf were:

October 11, 1960	\$3,000.00	Nov. 5, 1960	W. Bodnaruk	\$ 1,136.80
Nov. 14, 1960	3,000.00	Nov. 5, 1960	J. Bodnaruk	1,487.50
January 17, 1961	<u>3,000.00</u>	Nov. 30, 1960	Miskulin	1,045.15
	\$9,000.00	Nov. 30, 1960	Miskulin	1,045.15
		Dec. 19,	Miskulin	393.40
<u>1960</u> Sept. 27	Dickson 1,068.00	Jan. 5, 1961	H. Perrett	500.00
Sept. 27	H.J. Perrett 245.50	Jan. 11, 1961	D. Hartley	437.50
27	R. Greeno 80.00	Jan. 11, 1961	H. Hartley	1,312.50
Oct. 2	Freight 310.56	Jan. 16, 1961	D. Hartley	70.00
Nov. 5	V. Thompson 794.25	Feb. 2, 1961	J. Luker	<u>899.25</u>
5	D. Pengilly 55.36			\$ 10,880.92
		Cash advances		<u>9,000.00</u>
				\$ 19,880.92

A loss to the Association of \$13,035.03 on the feeding of
143 animals plus whatever contract cattle were being fed with
Association feed. A loss on a rising market.

In the spring of 1961, the following cattle were placed with
Mr. Nelson for feeding:

February 24	14 H	@ 22.36	\$ 1,480.28
February 24	28 S	@ 21.41	4,511.78
February 24	37 S	@ 25.39	4,157.17

February 21	8 S & H	@ 23.30-70	\$ 1,127.26
February 28	101 H	@ 21.21	11,500.78
Mar.-Apr.	<u>17 cows</u>		<u>2,934.30</u>
	205		\$ 25,711.57

As Nelson's contract limit was \$20,000.00 it was necessary to have some of this debit disappear, so on April 11th, 1961, \$10,000.00 of Nelson's debit disappeared into the account of Elmer Wilde to reappear in Nelson's account on the day of reckoning, March 19th, 1964 with interest added.

These cattle were sold as follows:

July 11, 1961	7 cattle		\$ 1,450.53
July 6	11 S	@ 19.75	2,070.58
17	1 cow & 3 S	@ 19.75	842.55
Aug. 17	59 H	@ 19.67	9,347.99
Sept. 5	32 H	@ 20.50	4,704.64
Sept. 8	33 H	@ 20.00	5,017.05
Sept. 18	40 S	@ 22.25	9,600.87
Nov. 14	1 S	@ 18.02	116.07
Nov. 6	<u>33 S</u>	@ 22.50	<u>6,813.80</u>
	220		\$ 39,964.08

A Gain of		\$ 14,252.51
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Plus

July 31, 1961	Gain on Wilde contract cattle	\$ 4,591.65
July 24, 1961	Sam Kline contract	
	Gain on 28 S Ingoing 21590 lbs.	
	27 S outgoing <u>35415 lbs.</u>	

	Gain	13825 lbs. @ 21 cents	
	plus $\frac{1}{2}$ death loss		\$ 3,004.12
Nov. 15, 1961	Sam Kline contract		
	Outgoing 54 S	54765	
	Ingoing 54 S	<u>43848</u>	
	Gain	10917 lbs. @ 22.25	\$ 2,429.03
	Plus 40% profit		<u>293.06</u>
	Total gain		\$ 24,570.37

But during the same period, the following cash advances were made to Nelson as well as payments to others on his behalf:

Mar. 10, 1961	\$ 3,000.00	Feb. 21, 1961	H. Perrett	\$ 300.00
May 8, 1961	5,000.00	June 12, 1961	B. Fawcett	400.00
May 30, 1961	3,000.00	June 26, 1961	Interest	765.82
June 30, 1961	3,500.00	June 26, 1961	B. Fawcett	<u>160.00</u>
July 11, 1961	3,000.00			\$ 1,625.82
Aug. 9, 1961	3,000.00	Cash advances		<u>26,500.00</u>
Aug. 17, 1961	3,000.00			\$ 28,125.82
Sept. 18, 1961	<u>3,000.00</u>	Total Gain		<u>24,570.37</u>
	\$ 26,500.00	Loss		\$ 3,555.45

A loss of \$3,555.45 to the Association on feeding of 205 plus the animals of Kline and others which were on feed under contract.

In effect the Association was buying feed to feed the cattle owned by a livestock dealer named Kline and the Association was losing money on the transaction.

I am treating all losses from this point to the end of the narrative as losses to the Association as losses accumulate to

the end of the transactions resulting in a final debit of over \$77,000.00 before Nelson's assets are sold for about \$17,000.00.

In the fall of 1961 the following cattle were placed with Nelson on feed:

October 24	63 S	@ 21.25	\$ 8,676.60
October 24	3 S	@ 20.50	328.15
Nov. 4	15 S	@ 19.33	2,272.79
Nov. 8	41 S	@ 19.50	5,890.18
Nov. 29	7 S & 6 H		1,359.43
Nov. 29	3 S & 7 H		1,481.55
Feb. 5, 1962	<u>19 cows</u>		<u>2,935.05</u>
	164		\$ 22,943.75

These animals were sold as follows:

March 1, 1962	6 cows		\$ 1,060.86
March 14, 1962	11 S	@ 21.90	2,718.86
	1 S	@ 19.00	194.89
March 13, 1962	60 S	@ 23.00	11,390.38
May 11, 1962	25 S	@ 25.00	6,729.22
May 22, 1962	4 cows		797.36
June 19, 1962	4 S		1,104.66
June 15, 1962	25 S	@ 25.25	6,600.94
July 4, 1962	2 S & 1 H		712.99
July 5, 1962	1 H	@ 22.40	185.55
July 24, 1962	1 cow		71.24
July 25, 1962	1 S	@ 20.25	108.66
Aug. 7, 1962	1 S	@ 25.80	<u>296.57</u>
			\$ 31,972.18

In the spring of 1962, the following cattle were placed with Nelson on feed:

April 17	143 S	@ 22.82	}	\$ 20,822.10
	<u>36</u> H	@ 21.51		
	179			

These animals were sold as follows:

Aug. 24, 1962	36 H	@ 25.00	\$ 7,328.25
Sept. 10, 1962	4 S	@ 26.00	
	25 H	@ 25.00	5,522.82
Sept. 20, 1962	58 S	@ 27.75	15,574.08
Sept. 27, 1962	28 S	@ 28.00	6,926.35
Oct. 15, 1962	1 S		137.76
Oct. 26, 1962	26 S	@ 28.00	7,150.96
Oct. 20, 1962	<u>1</u> S	@ 27.88	<u>300.86</u>
	179		\$ 42,941.08

The totals of the two previous placements were as follows:

Animals placed fall 1961	164	\$ 22,943.75
Animals placed spring 1962	179	<u>20,822.10</u>
		\$ 43,765.85
Animals sold spring 1962	143	\$ 31,972.18
Animals sold fall 1962	179	<u>42,941.08</u>
		\$ 74,913.26

A Gross gain of \$31,147.41.

But during the period November 1961 to October 15th, 1962, the following cash payments were made to Nelson as well as payments to other people on his behalf.

Nov. 10, 1961	\$ 3,000.00	Feb. 7, 1962 H. Perrett	\$ 300.00
May 22, 1962	3,000.00	Feb.12, 1962 L. Nelson	287.10
June 7, 1962	3,000.00	Mar.20, 1962 M. Herget	2,400.00
July 4, 1962	1,000.00	Mar.26, 1962 H. Perrett	500.00
Aug.13, 1962	1,000.00	Apr.16, 1962 H. Perrett	622.50
Aug.24, 1962	3,000.00	Apr.26, 1962 F. Nelson	2,043.60
Sept.24, 1962	2,000.00	May 29, 1962 L. Nelson	93.50
Oct. 15, 1962	<u>1,000.00</u>	June 4, 1962 N.Kuftenoff	1,112.20
	\$ 17,000.00	June 7, 1962 B. Welsh	5,166.95
		July 12,1962 H. Perrett	200.00
Dec.18, 1961 L.Bodnaruk	250.00	July 30,1962 J. Finley	219.60
Dec.18, 1961 J.Bodnaruk	66.00	Aug. 7, 1962 D. Hirsche	101.20
Jan. 3, 1962 H.Perrett	500.00	Aug.13, 1962 R. Musklin	800.40
Feb. 5, 1962 T.Ell	655.00	Aug.13, 1962 B. Musklin	<u>800.40</u>
Feb. 5, 1962 A.Christensen			\$ 22,483.15
	4,154.70		
Feb. 7, 1962 J.Bodnaruk	1,100.00		
Feb. 7, 1962 W.Bodnaruk	<u>1,100.00</u>		

From and after April 15th, 1962, the Association ceased deducting interest from sale settlements and charged interest direct to the ledger.

The interest charged from April 15th, 1962 to October 15th, 1962 was:

April 15	\$ 198.06	August 15	\$ 405.86
May 15	351.03	Sept. 15	398.74
June 15	373.62	October 15	<u>324.25</u>
July 15	389.04		\$ 2,440.60

The results of feeding from November 1961 to October 15th, 1962, were as follows:

Gross Gain		\$ 31,147.41
Cash Advances	\$ 17,000.00	
Payments for feed	22,483.15	
Interest	2,440.60	
Net Loss	<u> </u>	<u>10,776.34</u>
	\$ 41,923.75	\$ 41,923.75

There is a net loss of \$10,776.34 plus a small loss for supplies purchased on feeding 343 cattle on a rising market. The cattle were purchased in the fall of 1961 at from 19.50 to 21.25 and in the spring of 1962 at from 21.51 to 22.82. These cattle were sold with the gain added at \$21.90 to 25.25 in the spring of 1962 and from \$25.00 to 28.00 in the fall of 1962.

There should have been a substantial net profit and a reduction in the indebtedness of Nelson to the Association. This is a glaring example of the mismanagement of the funds of the Association by the supervisor Hatch in spilling out this money without a worry as to its use and without a worry as to its return. During this period of time, there is no evidence in the ledger cards of Nelson that he had any cattle in his feedlot from other persons; there is no entry in the ledger after November 30th, 1961 concerning a receipt or a disbursement from Kline or any other dealer.

The ledger card showed a debit balance of \$54,951.23 on September 24th, 1962. Deducting the proceeds of cattle sold on

September 27th, October 15th, October 20th and October 26th, 56 in number at a net value of \$14,515.93, this left a debit balance of \$40,435.30 in the Nelson ledger account before he embarked on his fall and winter feeding for 1962-1963. To this amount must be added the \$10,000.00 and accumulated interest which is lurking in the Wilde ledger account and which will reappear on March 19th, 1964. The true debit balance of Nelson on September 20th, 1962, after crediting him with the 56 animals sold in the next 30 days was \$50,435.20.

By November 30th, 1962, Nelson had taken delivery of a substantial number of cattle for winter feeding. His ledger card debit was \$66,742.08 plus \$10,000.00 in the Wilde account. The supervisor, Hatch, reported to the Bank that the debit in Nelson's account on that date was \$46,742.08.

It is alleged that Nelson and other feeders got into difficulty because of a falling market. But in September 1962 a point was reached towards which the market has been taking an upward trend. Nelson had lost over \$50,000.00 by that date.

It is true that from the fall of 1962 there was a falling market. This led to a smaller spread between the cost of the feeder cattle and the selling price of the fat cattle. But the thing which will gnaw at the vitals of this account from this time on will be the interest charges of from \$300.00 to \$400.00 a month. At 20 cents a pound this will mean that from 1500 to 2000 lbs. of gain will be needed each month to meet interest charges alone.

In the period from September 24th, 1962 to January 15th, 1963, 162 steers and 27 heifers were placed with Nelson at a cost of \$31,249.30. The price of steers ranged from 23.55 to 26.00 and heifers at 24.00. 165 steers and 28 cows were sold from December 4th, 1962, to April 9th, 1963, at \$47,021.71. 60 of the steers were sold on December 4th, 1962, at 26.95 a cwt. and then the price of steers dropped as low as 22.00 during this period.

There was a gross gain of \$15,772.41. Cash advances to Nelson in this period were \$8,000.00 and the Association paid a total of \$13,114.15 to feed suppliers on behalf of Nelson. Interest and other items totalled \$2,435.94. There was a total loss of \$7,777.68 during this feeding season of the fall, winter and spring seasons of 1962-1963.

The ledger account of Nelson on March 31st, 1963, showed a debit balance of \$61,218.94 plus \$10,000.00 in the Wilde account or a total of \$71,218.94. The Supervisor reported to the Bank that the debit balance was \$41,218.94. The contract limit was \$30,000.00.

In the spring of 1963 between April 4th, 1963, and June 24th, 1963, 101 steers, 73 heifers, 11 cows and 2 bulls were placed with Nelson at a cost of \$25,291.85. Steers varied in price from 23.73 to 25.00 and heifers were 23.75.

Between June 12th, 1963, and September 27th, 1963, 85 steers and 96 heifers were sold for \$38,328.75. Steers sold from 23.80 to 26.00 and heifers from 23.45 to 24.00.

The gross gain was \$13,036.90.

In the period April 29th to August 29th, 1963, a period of 4 months, Nelson received advances of \$4,000.00, \$4,000.00, \$1,000.00 and \$1,000.00 for a total of \$10,000.00. In addition between May 22nd, 1963 and August 28th, 1963, a period of 3 months, the Association issued 24 cheques in the total amount of \$12,190.78 for feed suppliers to Nelson. Cash advances and feed payments totalled \$22,190.78 in four months. Adding charges for interest, reserves and supplies of \$2,519.46 brought the total loss for this five month period to \$11,673.54.

Finally in the period from July 31st, 1963, to January 8th, 1964, 152 steers, 63 heifers, 5 cows and 5 calves were placed with Nelson at a cost of \$31,951.45. Steers varied in price from 22.00 to 24.25 and heifers between 20.00 and 21.00

Between November 18th, 1963 and July 9th, 1964, 212 steers, 49 heifers and 71 cattle were sold for \$69,118.86.

There was a gross gain of \$37,167.41.

During this period cash advances to Nelson totalled \$14,000.00, payments for feed were \$10,762.96. The total interest charged was \$8,074.91 including \$2,875.40 being the revised interest charge on the \$10,000.00 which was brought back from the Wilde account to the Nelson account on March 19th, 1964. The total advances and charges during the period added up to \$32,837.87.

There was a net profit of \$4,329.54 during this period because in the cleanup of cattle on Nelson's premises, there were about 50 head which were not shown on vouchers of deliveries

of cattle to his feedlot since 1959.

When all the cattle on his premises had been sold, Nelson owed the Association \$77,617.33. In satisfaction of this debit he transferred his land, his equipment and his crop to the Association. I am told that the sale of these items realized a net return of \$17,500.00 to the Association.

Before bringing this narrative concerning Ray Nelson to a conclusion, it is necessary to return to the period 1958 to 1961 and examine the three N.A.B. ledger cards in the names of Nelson, Meats Inc. and S. Kline.

Ledger Card of Ray Nelson and Meats Inc. N18

Returning to the afternoon of July 31st, 1959, it will be remembered that the sum of \$22,861.65 was removed from N4, the main ledger account of Ray Nelson and charged to a new ledger account N.A.B. 18 in the names of Ray Nelson and Meats Inc.

This account enjoyed a hectic career. On May 2nd, 1960, the sum of \$9,328.64 was transferred back to Nelson's main ledger account N4 and was included in the journal entry of \$18,084.74 of that date. An item of \$420.72 was debited for interest on July 31st, 1960. This left a debit balance of \$13,953.13. Nothing happened until December 16th, 1960 when a fictitious sale of 80 cattle to Tricsli for \$8,000.00 was shown as a credit. This credit stayed in this Card N18 but was reversed on January 5th, 1961, when a cheque was issued to Tricsli for \$8,000.00 and was debited to Nelson's main ledger account N4.

Then on December 29th, 1960, the ledger card was credited with a purchase of 100 calves from J. W. Winkler for the sum of \$3,162.00. This credit remained in this account N18 but was promptly done away in another account of Ray Nelson and S. Kline on January 16th, 1961 when that ledger account was debited with \$3,162.00 and Winkler was credited with the same amount.

On January 13th, 1961, a fictitious purchase of 100 calves from E. S. Heninger was charged to this account. This entry was used to balance a cheque for \$10,000.00 paid into the Association by Heninger and credited to the Nelson and Kline ledger account N14 on December 23rd, 1960.

This ledger account of Nelson and Meats Inc. N18 had a debit balance of \$12,791.13 as a result of these transactions.

This debit was neatly done away with by the following journal entry on December 31st, 1961.

Dr. E. S. Heninger	N.A.B. H16	\$ 9,850.99
Dr. C. W. Heninger	N.A.B. H15	30,407.62
Cr. E. Bishop and Son	B520	\$ 21,337.84
Cr. R. Nelson	N.A.B. N14	6,256.90
Cr. R. Nelson & Meats Inc.	N18	12,663.87
V207.- Transfer of 168 cattle		
162,661 @ 24.75	\$40,258.61	

I appears to me that this is a phantom herd because eventually the auditors wrote off the Heninger balances in 1964 as a complete loss.

This operation left a debit of \$127.26 in the account of

Nelson & Meats Inc. Interest in the amount of \$1,070.84 was added on December 31st, 1961 and the resulting balance of \$1,198.10 was transferred by Journal Voucher 251 to the main ledger account of Ray Nelson N4 on the same day.

The ledger account of Ray Nelson and Meats Inc. was closed.

Ray Nelson and Sam Kline N14

This account N14 was opened on May 30th, 1958 and 71 steers went in and out of the account by July 26th, 1958, and a nil balance resulted.

On July 31st, 1959, an item of \$113.49 for interest was debited to the account.

Then there was an item dated November 12th, 1959, showing that 24 steers were bought from Kline and placed in the account at a debit of \$5,373.96. Then followed another item dated nearly a month previous, October 18th, showing a receipt from Canada Packers for \$16,955.52. Really the receipt from Canada Packers was for \$21,669.17 covering the sale of 88 steers of which this amount of \$16,955.52 was credited to this card N14 and \$4,392.25 was credited to Nelson N14 on the basis of

Outgoing weight 88 steers 93,315 lbs.

Ingoing weight steers 72,375 lbs.

20,940 lbs. @ 21¢ \$ 4,397.40

Plus $\frac{1}{2}$ death loss 109.25

\$ 4,506.65

Commission 114.40

\$ 4,392.25

The crediting of \$16,955.52 to Nelson & Kline resulted in a credit balance of \$11,468.07. Then there was an entry marked "Journal auditor 19" with a debit of \$16,000.00. This resulted in a debit balance of \$4,531.93. This was balanced on May 3rd, 1960, by Journal Entry V40 J64 which charged this \$4,531.93 to the main ledger account of Nelson in the debit entry of \$18,084.74.

This ledger card now showed a nil balance. But on June 24th, 1960, the following entries were placed in the journal:

	Jones	\$ 18,018.08	
Dr.	S. Kline contracts Nelson	12,151.70	
Cr.	Cattle		\$ 30,169.78

See Drover (18518) charged cattle.

Drover cheque #18518 was examined and was found to have been issued to Kline 8 months previously on October 13th, 1959, and charged to the cattle account.

On October 20th, 1960, interest in the amount of \$583.20 was debited and then on December 23rd, 1960, the account was credited with a cheque received from Ellis Heninger. Of course Heninger received his money back on January 13th, 1961, by way of the Association's cheque which is charged to Nelson and Meats Inc.

After charging a feed item of \$360.00 on January 3rd, 1961, in favour of J. Pereverziff (of course Pereverziff is not mentioned on the ledger card and one has to hunt the records further to find out who supplied the feed. And one wonders why

feed is charged to this account at this time because really there are no cattle in it). A cheque was issued on January 16th, 1961 in favour of J. W. Winkler in the amount of \$3,162.00. This latter item balanced the credit to Winkler which was placed in Nelson and Meats Inc. ledger card on December 29th, 1960.

This left a debit balance of \$6,256.90 in this account of Nelson and Kline as of January 16th, 1961. Eleven months later this debit balance was wiped out by debiting the amount to the accounts of E. S. Heninger and C. W. Heninger in Journal entry V207. It joined the phantom herd.

Ray Nelson N.A.B.20

On February 5th, 1959, a new ledger card N.A.B.20 was opened in the name of Ray Nelson.

The first entry was a debit of \$3,000.00 covering a cheque issued to Nelson on that day. Nelson could give no reason why this ledger card was set up.

Then followed six amazing entries, all debits.

March 16, 1959	Receiver General of Canada	\$ 164.05
July 7, 1959	Parker Electric	319.00
July 22, 1959	Empire Furniture	300.00
July 22, 1959	Scandia Iron Works	100.00

and as an afterthought

June 26, 1959	Dogterom Equipment Ltd.	265.00
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Nelson thought that perhaps these firms had sold goods to other farmers and had taken grain in payment. In turn he thought that these firms might have sold him the grain. However he could

not remember any of the items.

Evidence was called to show that

- (1) The cheque for \$319.00 in favour of Parker Electric was issued by the Association in payment of a water softener installed in the home of the supervisor, Hatch.
- (2) The cheque for \$76.12 in favour of Raymond Agencies was issued by the Association in payment of a premium on an insurance policy on a boat owned by D. L. Nilsson, an employee of the Association.
- (3) The cheque for \$265.50 in favour of Dogterom Equipment Ltd. was issued by the Association in payment of a boat trailer sold to D. L. Nilsson.

No evidence could be obtained on the following:

- (1) The cheque to the Receiver General.
- (2) Empire Furniture - It was suggested that the books of this company have been destroyed in a fire.
- (3) Scandia Iron Works - The persons trading under this firm name have left the city.

I am convinced that these items were charged to this account without Nelson's knowledge or consent.

It was suggested by D. L. Nilsson that these items covered part of income earned on a secret deal between Kline, Hatch and himself covering contract feeding deals with Nelson and Jones. I will discuss this suggestion in the chapter dealing with the relations of Hatch and Nilsson in reference to these secret arrangements with Kline.

After July 22nd, 1959, this ledger account remained dormant until May 3rd, 1960, when the debit of \$4,224.17 was cleared by being debited to the main ledger account N4 of Ray Nelson and was included in the debit of \$18,084.74 of that day.

Conclusions in reference to the accounts of Ray Nelson:

1. The cross entries between the N.A.B. ledger cards and ledger card N4 were made with the intent to confuse and deceive.
2. The supervisor advanced monies to Nelson far in excess of the contract limit. Except for the amounts involved in short term overlap, the excess money was obtained by continuous false representations to the Bank.
3. The supervisor used this account on two occasions to assist other members to create credits on the books of the Association and conversely debits in their own accounts over the year end.
4. The supervisor advanced money to Nelson in large amounts and paid large bills for feed with Association funds at a time when Nelson was feeding cattle on contract with Kline. This fact will be referred to later when the relations between the supervisor and Mr. Kline are considered.

ELMER E. WILDE

Mr. Wilde farms at Welling, Alberta. He joined the Association in 1951 or 1952. He and Mr. Ray Nelson had been parties to several transactions in which Nelson fed animals for Wilde on a basis of so many cents per pound on the gain in weight.

On April 11, 1961, Journal entry V138 was made in which the following particulars appeared:

Dr. Elmer Wilde	W8	\$10,000.00	
Cr. Ray Nelson	N4		\$ 10,000.00
Transfer of cattle	V138		

On March 19th, 1964, the supervisor, Hatch, made several journal entries including the following:

Dr. Ray Nelson	N4	\$ 14,753.21	
Cr. Sam Kline	K14		\$ 1,113.21
Cr. Elmer Wilde	W8		13,640.00

This entry meant that Wilde was receiving \$1,877.81 for the use of his name to cover the debt of Ray Nelson to the extent of \$10,000.00 from April 11th, 1961 to March 19th, 1964.

On May 25th, 1964, this item of \$1,877.81 was reversed by Journal entry V542 as follows:

Dr. E. E. Wilde	W8	\$ 1,877.81	
Cr. Ray Nelson	N4		\$ 1,877.81
Adjustment on interest	V542		

Mr. Wilde said he knew nothing about the entry of \$10,000.00 in his ledger account when it was made. About a year later the

auditors sent him a notice telling him of his alleged indebtedness. Instead of getting in touch with the auditors, Wilde went to Hatch who told him that everything was under control and that the debit would not damage his credit. Wilde did not sign the auditor's verification slip. (VII 968-970)

Wilde stated that he did not know that his account had been credited with an additional \$1,877.81. He said that Hatch told him that the outer office found it after he (Hatch) charged it "back into my account". (VII 972)

By failing to get in touch with the auditor, Mr. Wilde inadvertantly, no doubt, assisted Hatch in carrying out this deception on the Board and the Bank.

The result was a loss of \$10,000.00 and the accumulated interest on this amount, being part of the overall loss on the Ray Nelson account.

This loss also can be charged to Hatch in deceiving the Board and the Bank.

LEONARD MEHEW

Leonard Mehew lives at Welling, Alberta, about 15 miles south of Lethbridge. He is a farmer and has been a cattle feeder for several years.

Mr. Mehew had a number of cattle transactions through the Association ledger commencing in January 1956. At that time N.A.B. Ledger card # M100 was opened in his name. Some of these transactions covered feeding on contracts with E. Wilde and Ray Johansen.

From February 4th, 1958 to January 27th, 1959, there were cash advances to Mehew amounting to \$13,800.00. The debit balance was reduced to \$7,608.19 on January 7th, 1959, by sales totalling \$19,633.75.

On April 18th, 1959, there was a "transfer of cattle" from ledger card J08 in the name of Johansen and Mehew in the amount of \$7,470.54 under Journal entry 61. And for good measure a debit showing a cheque issued to Empire Furniture on April 18th, 1959, in the amount of \$380.00 was debited to the account.

The cheque to Empire Furniture for \$300.00 which was charged to Ray Nelson N20 account was dated July 22nd, 1959. Mehew stated that he had no knowledge of this cheque which was charged to his account.

This N.A.B. account then lay dormant from April 18th, 1959, until December 21st, 1961, when a credit of \$5,417.87 was placed in the account by Journal entry V209 J4 which mentioned particulars as "transfer of 55 calves to G. Peterson P25".

But there appears to be something very strange about this credit item because on December 31st, 1962, an auditor's entry reverses this credit. But as the auditor was also abolishing N.A.B. Ledger Card M100 at the same time, the reversal was entered in Mehew's members ledger card M15 (which I will refer to in a moment) by the following entry:

To adjust N.A.B. receivables

Glen Peterson	P25	Cr.	\$ 5,741.49	Dr. L. Mehew	M15
Leonard Mehew	M100	Cr.	81.20	Dr. L. Mehew	M15

Interest was added to the account by journal entries on December 31st, 1961, and December 31st, 1962, and on the latter day, the debit balance of \$14,762.12 was transferred by Journal entry J54 to Mehew's membership account M15.

On December 16th, 1958, the minutes of the Board of Directors of the Association contained the following minute:

"Membership - Leonard Mehew - approved \$10,000.00.

Mehew's limit to be \$10,000.00 and subject to his clear title of land."

The supervisor did not pay too much attention to this proviso. Mrs. Mehew did not transfer the home quarter to the name of her husband until August 11th, 1961. Mehew said that this was done to strengthen his bank credit and was not done because of any request on the part of the Association or by the Supervisor.

In addition another N.A.B. ledger card M40 had been carried in the name of John Mehew, a son of Leonard Mehew. This account was opened in 1958 and in January of 1959 there were several

substantial debits covering cattle, placed in this account so that on February 20th, 1959, this account had a debit balance of \$11,651.67. On February 20th, 1959, this balance was transferred and debited to the membership ledger card M15. Although the membership had been approved in the name of Leonard Mehew, this card was carried in the names of L. and J. Mehew until May 1961. Subsequent to that time it appeared in the name of Leonard Mehew only.

The following is a summary of Mehew's ledger account M15 from February 29th, 1959, to September 1st, 1964.

<u>Purchases</u>		<u>Sales</u>	
1960 settlement for 105 steers to Adams, Wood & Weiller	\$ 25,027.66	1959	\$ 24,566.30
1960 other purchases	23,720.12	1960	64,445.56
1961	53,121.00	1961	77,638.00
1962	116,768.22	1962	123,104.06
1963	66,724.23	1963	149,825.11
1964		1964	57,369.02
	\$ 285,361.23		\$ 496,948.05
Gross Gain			
	211,586.82		
	\$ 496,948.05		
Gross Gain			\$ 211,586.82
Debit balance February 20th, 1959		\$ 11,651.67	
Cash advances		156,771.00	
Paid for feed		98,369.00	
Interest (approximate charged to ledger after April 1962)		15,000.00	

Bonuses to Bishop and interest charged to \$30,000.00 while in name of Bishop	\$ 6,691.48	
Excess of debits over credits on transfers back and forth from N.A.B. Peterson & Johansen	13,849.15	
Supplies and private reserves (approximate)	2,001.02	
Debit balance owing September 1, 1964	<u> </u>	<u>92,746.12</u>
	\$ 304,332.94	\$ 304,332.94

Mehew's contract limit of \$10,000.00 was increased to \$20,000.00, then to \$35,000.00 and finally to \$40,000.00 in 1963.

The summary shows that in this period, Mehew received more than \$50,000.00 in cash advances and payments for feed in excess of the difference between the value of the feeder cattle and the selling price of the fat cattle.

According to his evidence, Mehew was farming about 1500 acres of land. He grew mostly barley and beets. It is strange that with such a large acreage, he should receive such large cash advances as well as payments by the Association of accounts for large purchases of barley. Mehew said that he put all his grain through the cattle. (VI 786)

He admitted that during the years 1961-1962 and 1963 at least \$35,000.00 of the cash advances were used to pay for machinery and maintain the place. (VI 826-828)

He had a revolving credit at the bank of \$16,000.00. Apparently it was all used up on October 31st, 1963, because on that day he received a cheque from the Association in the amount of \$16,000.00 and deposited it in this bank account.

He admitted that a discussion arose with the Bank and Hatch when Hatch showed in his statement to the Bank on February 28th, 1963, that Mehew had 420 cattle on hand. Mehew in another statement to the Bank showed that he had 526 cattle on hand. This discrepancy was explained to the Bank by the claim that 120 cattle belonged to Bishop.

The name of E. Bishop and Son entered the Mehew account on August 31st, 1962, when Journal entry J22 showed "transfer of cattle \$30,000.00" and this item was debited to the ledger account of E. Bishop and Son and credited to the account of L. Mehew. This item of \$30,000.00 remained in the account of E. Bishop and Son until December 31st, 1963 when it was again debited to Mehew in the amount of \$34,382.19, Bishop in the meantime having received a bonus of \$2700.00.

It was suggested throughout these proceedings that much of the loss experienced was due to a falling market.

But as I have pointed out previously there was an excellent spread between feeder cattle and fat cattle in 1961-1962 and Mehew should have shown a good profit in that year.

On September 11th, 1961, the entry in his ledger account showed a debit of \$52,837.30. From that date to January 2nd, 1962, he took in 449 cattle for feeding at a cost to the Association of \$45,785.34. These cattle were sold, 442 of them, between June 11th, 1962, and September 10th, 1962, for a net of \$98,725.30. The gross gain on these cattle was \$52,939.96 on an original cost of \$45,785.34. Surely this feeding operation

should have shown a substantial profit so that the indebtedness of Mehew to the Association should have been reduced. The debit on September 10th, 1962, after the sale of 78 of these cattle on that day was \$49,949.66. But as stated above \$30,000.00 had been removed from the account on August 31st, 1962, by a transfer to Bishop. So the true debit was \$79,949.66.

To arrive at the true picture one would have to take the sales of cattle on hand September 11th, 1961, and the sales of cattle made subsequent to September 10th, 1962, of cattle on hand at that date. But the story continues that the average debit balance is growing and growing.

Then in the fall of 1962 the Association placed 601 animals with Mehew at a cost of \$93,024.97 including 175 animals at heavy weights from 942 to 1038 lbs. average. Apparently 76 of the heavy animals were sold in November 1962 and the balance in January 1963. On January 2nd, 1963, 101 calves at a value of \$10,075.70 were placed with Mehew and another 20 steers at a cost of \$2,923.04 were placed with him on April 15th, 1963.

The 175 heavy steers cost \$45,574.77 and 180 were sold for \$53,973.50.

1196 animals were placed with Mehew for feeding from September 10th, 1962, to November 1963 at a cost of \$152,990.30. The total sales of these animals, 1183, amounted to \$224,842.49. The gross gain was \$71,852.19 on an initial cost of \$152,990.30.

In 1961-1962 the gross gain per animal was about \$118.00. The gross gain per animal in 1962-1964 was \$68.00 per animal

but there were 175 heavy steers with a net gain of \$47.00 per animal which reduced the average.

The return per animal between cost price and selling price was drastically reduced so far as Mehew was concerned if a comparison is made between the feeding season 1961-1962 and the two seasons 1962-1963 and 1963-1964.

It is difficult to understand the reasoning of Hatch in placing 601 cattle with Mehew in the fall of 1962 at a cost in excess of \$93,000.00 when Mehew's limit under his contract at that time was \$35,000.00. Hatch did this without any authorization from the Bank or from the Board of Directors.

Mehew said that he had 900 cattle in his feed lot in 1962. The highest number shown on the books of the Association is 623. If Mehew did feed another 275 head, and there is no evidence of this, except his statement about the 900 head, perhaps some of the feed purchased by the Association was used in this manner.

Mehew admitted taking five trips to Las Vegas and Reno but said that he did not lose any money in gambling there.

It is amazing that members of the Board of Directors would pass by this feedlot and notice the large number of cattle in the feedlot and the large amount of new machinery in the yard and not bring the matter to the attention of the whole Board. This is an example of the extent to which Hatch had gained control of the Association in that he was able to parry successfully all offhand inquiries by individual members of the Board about Mehew.

Hatch deceived the Board, the Bank and the Auditors by transferring \$30,000.00 of the indebtedness of Mehew to Bishop on August 28th, 1962. He caused a further deception by crediting \$9,000.00 to Mehew which Fooks paid into the Association on October 29th, 1962, and withdrew again on January 29th, 1963.

It is necessary to remember also that the auditor made year end entries dated December 31st, 1962 (entered in the ledger on April 10th, 1963) transferred N.A.B. ledger card M100 debit balance of \$14,843.37 and the Glen Peterson P25 debit of \$5,741.49 to Mehew's membership ledger card M15.

On December 30th, 1963, the debit in Mehew's M15 account was \$106,041.28.

The supervisor opened a new ledger account M015 on December 30th, 1963, in the names of Leonard and Wayne Mehew.

The first entry is a debit called transfer J52 \$73,454.17. One must examine the journal to find an explanation. The amount is made up by transferring the debit of \$34,382.19 in the Bishop account and \$39,071.98 from the main ledger card M15 of Mehew.

The debit balance in Mehew's ledger card M15 was thereby reduced from \$106,041.28 to \$66,969.30 for year end purposes.

After the deception on reports to the Bank were discovered in March 1964, the debit balance in M015 on April 2nd, 1964, in the amount of \$74,749.00 was transferred to its rightful place in ledger card M15. This brought the debit balance on that day to \$147,050.87. Mehew's contract limit was \$40,000.00. Sales

of cattle on April 7th, 14th and 17th reduced Mehew's debt to the final amount of \$92,246.12 as of September 1st, 1964.

The whole history of this account shows a complete disregard by Hatch of his duty towards the Board and the members of the Association. He issued cheques to Mehew without any regard to Mehew's equity in cattle. He permitted the debits in Mehew's account to exceed the contract limit by 3 to 4 times the limit at times. He concealed the true state of the account by transferring huge sums to other accounts and by crediting items which had nothing to do with Mehew or his account. There can be no doubt that Hatch knew that Mehew was using some of the money for purposes other than the cattle feeding operation.

JOHN B. MERRILL

John B. Merrill is a farmer living at Hillspring, Alberta. In his evidence he stated that he farmed about 340 or 350 acres which were all under cultivation and irrigated.

Mr. Merrill joined the Association prior to 1950 probably in 1945 or 1946.

Mr. Merrill signed contracts with the Association and his limit of credit under his contract was \$15,000.00 until 1963 when it was raised to \$30,000.00.

In the fall of 1958 he took possession of 96 cattle on feed at a total cost of \$17,888.46. This increased his indebtedness to \$35,862.27 which was an amount substantially in excess of his contract limit.

During the same year about \$18,000.00 worth of cattle were charged to the M. M. Merrill account with the Association. Mr. M. M. Merrill is the father of J. B. Merrill.

J. B. Merrill said at (VI 866) "The only thing I know about my father's account is that I think back in 1958 or 1959 when I fed cattle for him, you might say for him, association cattle, and I don't know how many there was, but I imagine it was that \$10,000.00 we are talking about."

Leaving consideration of the debit in the name of M. M. Merrill in 1958 for the moment, I will start consideration of J. B. Merrill's ledger card with the debit balance as of May 4th, 1959, of \$26,891.96.

It is difficult to ascertain from the ledger card the number of cattle owned by the Association at that date which were on feed with Mr. Merrill. The number appeared to be 78 steers as he sold 78 steers between June 5th, 1959, and August 10th, 1959, for a net of \$18,073.48. For the purpose of obtaining a starting point, it would therefore appear that Merrill started his 1959-1960 feeding operations with a net deficit of \$26,891.96 minus \$18,073.48 equals \$8,818.48, that is, forgetting for the moment the debit lurking in the background in his father's account.

Between June 4th, 1959 and October 23rd, 1959, 254 steers were placed with Merrill for feeding at a total cost of \$48,343.95. Included in this total were a particular lot taken on September 3rd, 1959, i.e. 101 steers at a value of \$20,809.06.

Mr. Merrill now exceeded his contract limit by many thousands of dollars. To correct this state of affairs the following figures were entered in the books. On October 5th, 1959, a journal entry J54 was made in which \$20,809.06 was credited to Merrill on an item shown as "transfer of cattle" and the same amount was charged and debited to the account of Ray Johansen. Thus apparently the debit covering the 101 steers delivered to Merrill on September 3rd, 1959, was transferred to Johansen on October 5th, 1959.

Both Merrill and Johansen denied any knowledge of this transaction. Merrill did not know Johansen and he had no transaction with him and Hatch never discussed the matter with him. (VI 844)

On April 12th, 1960, another journal entry, J61, occurred in which \$22,514.22 was debited to Merrill's ledger account on an item shown as "transfer of cattle" and of this amount.

Interest was credited with	\$ 655.16
Ray Johansen was credited with	<u>21,859.06</u>
	\$ 22,514.22

Therefore Johansen in lending his name for this credit for a period of six months received	21,859.06
	<u>20,809.06</u>
	\$ 1,050.00

But Johansen said he didn't know Merrill and knew nothing at all of this transaction.

The evidence of Johansen on this point is found at (VII 925-927)

"A Who is J. B. Merrill?

Q You know the Merrill family don't you Mr. Johansen?

A I know Don Merrill and I know Magrath Merrill.

Q That's right. And you know Magrath's son?

A No, I don't.

Q You never heard of him?

A I am not acquainted with Magrath Merrill's family."
and on page 926:

"A I was never approached to have anything to do with Merrill and this is the first time I knew anything about any dealings with Merrill."

Referring to the cheque for \$1,050.00 which he received on

April 11th, 1960, the day prior to the journal entry, he said:

"A I was told that that came from Mehew. In my books

I have it as having come from Mehew." (VII 926)

and "as far as I know that was the final payment on the

Mehew deal." (VII 927)

Returning to October 1959, Merrill's ledger balance was \$33,782.60 as of October 23rd, 1959. This was the day on which he took possession of 96 steers at a debit of \$15,725.30.

But in addition to these 96 steers he also took possession of another 66 steers called "Park Bend Cattle" at a value of \$10,206.13. But these 66 steers and the amount of \$10,206.13 were charged to his father M. M. Merrill under voucher 7557.

On July 19th, 1960, nine months later, these 66 cattle and the \$10,206.13 were transferred from the account of M. M. Merrill into a new ledger account of J. B. Merrill known as M51. This M51 ledger account was an N.A.B. account (Non Association Business). How a transfer of Association cattle from one member to another member could be considered Non Association Business is a mystery. In any event it was a convenient way to forget about \$10,000.00 for $2\frac{1}{2}$ years. Although this money was supposed to represent 66 steers, they never appeared in this account. The debit entry of \$10,206.43 was the only entry in the account until April 3rd, 1962, when the auditor added \$899.15 interest to the amount making it \$11,105.28 and transferred this amount as a debit to the main ledger account of J. B. Merrill M18 under Journal Voucher 251

and entered it as of December 1961. The Auditor would make the journal entry sometime prior to April 3rd.

As a result of this transfer Mr. Merrill's ledger account had a debit balance of \$58,316.99 on April 3rd, 1962. This was greatly in excess of his authorized contract limit of \$30,000.00. The balance reported to the Bank as of March 31st, 1962, was \$25,779.71. In the meantime the 66 steers had been sold and the sale had been credited to M18.

As a result of the placement of cattle with him in the fall of 1959, Merrill was feeding 320 steers. These were redelivered to the Association and sold by October 1st, 1960. It appears that as a result of feeding these steers, Merrill reduced his indebtedness to the Association by about \$4,500.00.

The following are the facts and figures taken from the Association records covering cattle placed with Merrill from and after September 17th, 1960.

Between September 17th, 1960, and March 16th, 1964, Merrill was charged on the books of the Association with the following cattle:

834 heifers	)	
136 steers	)	at a value of \$112,024.36
<u>970</u>		

There is of course no guarantee that the individual items in the ledger card are charged correctly for cattle purchased. There are at least 11 occasions in which cheques were issued directly to Merrill and debited as cattle purchased by himself.

In particular, for example, there is a charge on December 7th, 1962, covering the purchase by J. B. Merrill from M. M. Merrill of 30 cows for a price of \$3,471.00. I doubt whether this amount represented the price of 30 cows.

Between September 17th, 1960, and October 14th, 1964, Merrill returned to the Association for sale -

71 heifers

131 steers

36 marked cattle and cows

883 at a net selling price of \$167,654.06

This difference of 87 animals in the records of the Association points up the weakness of the Association records insofar as Inventory is concerned. In the documents on which cheques were issued on cattle purchased direct by Merrill, there does not appear to be any acknowledgments signed by Merrill. There are no records of death losses or other losses being reported.

No one can say that Merrill did not account for all the cattle purchased with Association money. All one can say is that the records do not balance.

The gross gain on feeding by

Merrill as shown by the records was	\$ 167,654.06
	<u>112,024.36</u>
	\$ 55,629.70

Cash and feed advances to Merrill were:

	<u>Cash</u>	<u>Advances</u>
December 1960 - December 31st, 1961	\$ 20,900.00	\$ 4,585.54
January 1, 1962 - January 2nd, 1963	17,250.00	16,960.00
January 16, 1964	<u>6,000.00</u>	<u> </u>
	\$ 44,150.00	\$ 21,545.54

In addition over \$11,000.00 was charged to his account for interest, reserves and life insurance and about \$2,500.00 was charged for supplies and trucking.

As a result, Mr. Merrill's feeding operations from September 17th, 1960, to October 14th, 1964, caused a loss of \$23,671.19 made up as follows:

Gross Gain		\$ 55,629.70
Cash advances	\$ 44,150.00	
Feed paid for by Association	21,545.54	
Interest, etc.	11,192.97	
Supplies and trucking	<u>2,412.38</u>	
	\$ 79,300.89	<u>79,300.89</u>
Loss		\$ 23,671.19

The final debit of \$52,653.71 in the ledger card is arrived at in the following manner:

Debit balance on September 17th, 1960	\$ 11,510.35
Loss for the period 1960-1964	23,671.19

April 3rd, 1962. Entry in ledger showing that Auditor had debited the account as of December 31st, 1961, under journal voucher 251 with \$10,206.13 plus interest of \$899.15 added by the Auditor. This item had remained dormant in Merrill's special ledger account M51 and represented 66 steers bought in the name of

M. M. Merrill on October 23rd, 1959 and which had
been transferred to this special ledger account
M51 on July 19th, 1960 \$ 11,105.28

On January 1st, 1962, Journal entry V227
credited the account of M.M. Merrill and
debited the account of J.B. Merrill with 6,187.12
This represented \$4,910.88 plus \$1,226.24
interest which had remained in the M. M. Merrill
account as a residual debit on transactions
carried on in the M. M. Merrill account for
J. B. Merrill in 1959

\$ 52,473.94

My computation is out \$179.67.

According to Merrill's evidence, he never checked the ledger
cards covering his account (VI 837-840)

On January 16th, 1964, Merrill received a cheque in the amount
of \$6,000.00 from the Association. At that time he had no cattle
on feed from the Association.

He was asked why he obtained this money and what he did with
it.

"A I had them (cattle) ordered but they hadn't arrived.

Q What did you do with the \$6,000.00?

A I paid expenses."

"A Fuel, fertilizer and ordinary expenses.

Q Did you meet your payments to the John Deere Company
of \$2,100.00?

A Yes, I did that.

Q You paid that out of the \$6,000.00?

A Yes. Actually this \$6,000.00 went to pay a note at
the bank.

Q You mean the Toronto Dominion Bank got \$6,000.00 of

good Canadian Imperial Bank of Commerce money?

A That is correct.

Q What did you tell him (Hatch) that you were going to use the money for?

A What I used it for.

Q Did you tell him that you were going to use it to pay a note at the bank?

A Yes." (VI 857)

On December 27th, 1962 the Association issued a cheque to Barfus in the amount of \$2,700.00 covering 3,000 bushels of barley delivered to Merrill. On January 2nd, 1963, a cheque was issued by the Association to LaValley in the amount of \$6,830.00 covering 6,830 bushels of barley delivered to Merrill. This appeared to be an excessive purchase of feed inasmuch as Merrill would not have used more than 3,600 bushels to finish feeding the animals of the Association which he had on hand at the dates of the issue of these cheques. However Merrill stated that he had purchased this barley over a period of 3 to 4 months prior to December 31st, 1962, and only paid for it at that late date.

(VI 855-857)

The following is information taken from the reports of the Association to the Bank concerning the balances in Merrill's account as compared to the actual ledger balances.

<u>Reports to the Royal Bank</u>	<u>Balance in Report to Bank</u>	<u>Actual Ledger Balance</u>
<u>July 31st, 1959</u>		
High for year	\$ 12,004.00	\$ 37,984.60

Nil balance	on Dec.18, 1958	actual balance on Dec.18, 1958 \$ 35,704.97
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July 31st, 1959	\$ 12,004.97	23,855.84
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Livestock on hand	70	
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Reports to Canadian Imperial Bank of Commerce

June 21, 1961

High for year	\$ 28,927.85	\$ 38,927.85 (May 30, 1961)
Low at Sept. 15, 1960	11,510.35	11,510.35 plus 10,206.00 in M51
Present balance	28,927.85	38,927.85

Report March 31, 1962

High for year	46,889.12	65,411.72 plus M51
Low at May 30, 1961	8,927.12	38,927.12
Present balance	25,779.71	45,779.71

Contract Limit - \$15,000.00

Report March 31, 1963

High for year	40,797.67	101,797.67
Low at Feb. 15, 1963	16,405.78	actual that date 58,405.78
Present balance	22,991.61	52,991.61

Old limit - \$15,000.00

New limit - \$30,000.00

In addition to the false statements given to the Bank, I note that on March 7th, 1963, some person altered the livestock balance figure on the ledger card from 119 to 219 so as to make it appear that Merrill had 219 cattle on hand instead of 119.

It appears that the loss in Merrill's account can be divided as follows:

Prior to June 1st, 1959	\$ 13,000.00
June 1st, 1959 to September 15th, 1960	12,000.00
September 15th, 1960 to 1964	27,000.00

There was a steady loss in this account throughout the past six or seven years. The cause of the loss rests primarily on the supervisor who apparently failed to analyse this account at any time, who placed substantial debits in the account of M. M. Merrill, who set up a special account to bury about \$10,000.00 for a period of years, who gave false information to the Bank, who withheld information from the Board and who in one instance at least, recklessly disbursed \$6,000.00 of the funds of the Association without any justification at all.

JOHN THIESSEN

John Thiessen is a farmer residing about 10 miles from Lethbridge in the Coaldale District. He has 80 acres of irrigated land, all cultivated and irrigation. He joined the Association on June 24th, 1957, and his farming enterprise has been predominantly a cattle feeding operation since that time.

Mr. Thiessen had a contract limit of \$15,000.00 in 1960.

A transaction took place on May 19th, 1960, which had the effect of allowing Thiessen to greatly exceed his limit without the knowledge of the Bank.

According to Thiessen, Hatch told him that Johansen had \$20,000.00 with which Johansen would like to finance feeder cattle on the basis of receiving 75 cents a head per month for calves, \$1.25 for yearlings and \$1.50 for two-year olds.

(XI 1607)

According to Johansen, Hatch told him that Thiessen wanted more cattle and was willing to pay a profit on the money to get it; the profit to be 75 cents a month on calves and \$1.50 per month for yearlings. Johansen said that Hatch induced him to go ahead with the deal after Hatch promised to obtain the approval of the Board of Directors. (VII 929)

Hatch was not present at the Inquiry to give his version of the transaction.

On May 19th, 1960, the following entry appeared in the Journal.

Dr. Ray Johansen	J6	\$ 20,000.00	
Cr. John Thiessen	T200		\$ 20,000.00
(contract cattle V49)			

The number of cattle, their weights or price per cwt. were not mentioned in this Journal entry or in the Voucher on which it was based.

The effect of this entry was to permit Thiessen to take delivery of additional cattle from the Association without the knowledge of the Bank. The Bank believed that cattle were being fed by Johansen.

The following entries were made back and forth between the accounts of Thiessen and Johansen after May 19th, 1960.

January 31st, 1961

Dr. Thiessen	\$ 21,149.59	
Cr. Johansen		\$ 21,149.59

April 1st, 1961

Dr. Johansen	25,000.00	
Cr. Thiessen		25,000.00

August 15th, 1962

Dr. Thiessen	29,411.73	
Cr. Johansen		29,411.73

October 4th, 1962

Dr. Johansen	25,000.00	
Cr. Thiessen		25,000.00

March 19th, 1964

Dr. Thiessen	27,735.78	
Cr. Johansen		27,735.78

Except for the months of February and March in 1961 and from August 15th, 1962, to October 4th, 1962, Thiessen had a bogus credit of from \$20,000.00 to \$25,000.00 all during the period from May 19th, 1960, to March 19th, 1964. He paid heavily for this accommodation. Johansen received \$7,292.26 from Thiessen, free and clear and with no risk to Johansen. (VII 941) In addition to paying \$7,292.26 to Johansen, Thiessen at all times was charged the regular Association interest rate on the \$20,000.00 and \$25,000.00.

No effort was taken to keep the Johansen transaction separate from the remainder of Thiessen's operations.

Thiessen thought that Johansen had actually invested the \$20,000.00 and \$25,000.00. (XI 1610-1614)

As these credits and debits entered Thiessen's ledger account T200, the account naturally fluctuated wildly.

For example with the debit of \$21,149.59 on January 31st, 1961, Thiessen's debit balance rose from \$8,459.89 to \$29,609.48.

On April 11th, 1961, the debit balance dropped from \$41,037.46 to \$16,037.46 as a result of credit of \$25,000.00.

On August 30th, 1962, Thiessen had a credit of \$8,518.65 in this account. When the debit of \$29,411.73 was entered on that day the resulting debit balance was \$20,893.08.

On October 4th, 1962, Thiessen's debit balance of the day reduced from \$63,984.54 to \$38,984.54 as a result of the credit of \$25,000.00.

Finally on March 19th, 1964, his debit balance grew from \$69,976.14 to \$97,711.92 as a result of the final debit in this series of transactions in the amount of \$27,735.78.

The following is an approximate synopsis of the entries in ledger account

T200 from January 1st, 1961 to October 26th, 1964.

	Purchases	Advances	Feed	Supplies	Reserves	Interest	Sales
1961	\$ 94,471.02	\$ 28,400.00	\$ 1,012.50	\$1,712.18	\$ 767.82	\$	\$ 67,333.10
1962	70,780.08	50,900.00	17,536.51	2,345.99	687.57	2,388.82	159,912.09
1963	127,666.79	38,700.00		3,854.47	1,182.18	3,245.57	195,549.79
1964	52,789.29	7,000.00	14,878.15	192.30		3,102.07	75,036.30
	\$345,707.18	\$125,000.00	\$33,427.16	\$8,104.94	\$2,637.57	\$8,736.46	\$497,831.28

Sales		\$ 497,831.28
Purchases	\$ 345,707.18	
Advances	125,000.00	
Supplies	8,104.94	
Reserves	2,637.57	
Interest	8,736.46	
Jan. 1, 1961 opening debit		
\$20,000.00 - 17,175.78	2,824.27	
Paid Johansen from account	4,282.50	
Difference in credits and		
debits on Johansen transfers	9,297.00	
Debit balance Oct. 26, 1964	<u> </u>	<u>40,205.54</u>
	\$ 540,017.08	\$ 538,036.82

Mr. Thiessen did not feed any cattle other than Association cattle after 1960. (XI 1625) He grew some feed on his farm. He put up a feedlot including a water reservoir. He estimated that about \$2,500.00 went into the cost of the feedlot from cattle sales.

Mr. Thiessen said that he had run tests to determine his costs; he had consulted the scientists at the Lethbridge Research Station. (XI 1634) He was suspicious of the weights of cattle delivered to him. (XI 1639-1650) He bought a house in Lethbridge, lived in Lethbridge for six months in 1962 and sold the house. He said that there was no loss suffered in this transaction. (XI 1650) He didn't want to feed cattle in 1964 but he was pretty well forced to. (XI 1655)

In my opinion the causes leading to this deficiency of

\$40,205.54 are:

1. The granting to Thiessen of the credits of \$20,000.00 and \$25,000.00 which were concealed from the Board and the Bank.
2. The continual entries and departures of these credits made it very difficult for Thiessen to realize that he was becoming very seriously involved.
3. The extension to Thiessen of credits far in excess of his contract limits and the concealment of this fact from the Bank over the period under review.

For example on March 31st, 1961, the ledger debit was \$40,944.96. It was reported to the bank at \$19,629.01 which was the balance on May 24th, 1961, after a credit of \$25,000.00 from Johansen was placed in the account.

On March 31st, 1962, the ledger debit was the same as reported to the bank, but the \$25,000.00 from Johansen still remained in the account. The same situation occurred when the report was made to the bank on March 31st, 1963.

4. However, I think Thiessen must share some of the blame. He appeared to be intelligent and he kept records. He surely must have realized that there was something wrong when Hatch placed cattle to the value of over \$127,000.00 with him in 1963.

RAY WILLIAM JOHANSEN

Ray William Johansen lives at 1003 - 15th Street South, in the City of Lethbridge.

In May, June and July of 1957 cattle to the value of \$15,566.65 were debited to an N.A.B. account in the name of Ray W. Johansen. An item of \$500.00 covering the membership of Mr. Johansen was charged to this account on the 21st of November 1957. On December 31st, 1957, the total amount of \$16,066.55 was taken out of this account and debited to a membership account J6.

Mr. Johansen's application for membership had been accepted by the Board of Directors held on September 10th, 1956.

During the Inquiry there was a discussion with Johansen and it was stated that no record could be found concerning the payment of his membership. However, after the hearings were completed I found the N.A.B. ledger card above noted, with the membership charge of \$500.00 debited to Johansen.

The cattle purchased in May, June and July, 1957, were sold in January and February, 1958, for a net price of \$17,083.44.

Between March 21st, 1958, and July 31st, 1958, cattle to the value of approximately \$49,000.00 were charged to Mr. Johansen's account.

July 31st was the year end of the Association in 1958 and on that day there was a multiple journal entry affecting Johansen's ledger account J6, Mehew's N.A.B. ledger account M100, Johansen-Mehew ledger account J08 and Lethbridge Third

Ward ledger account N.A.B. L10. The Journal entry reads as follows:

Dr. L. Mehew	N.A.B. M100	\$ 6,400.00
Cr. R. Johansen	member J6	\$ 33,000.00
Cr. Leth. Third Ward	N.A.B.	2,400.00
Dr. Johansen & Mehew	N.A.B. J08	29,000.00

To adjust Mehew and Johansen accounts as per N.A.B. and members.

According to Mr. Johansen's evidence he and Mr. Mehew entered into an arrangement whereby Johansen supplied the cattle and Mehew fed them for 20 cents a pound gain. (VII 922) Actually the Association paid for the cattle. They had been charged to Johansen's membership J6 account. Now the items were charged to a joint Johansen Mehew J08 account and a Mehew N.A.B. M100 account.

Neither Mr. Johansen nor Mr. ~~Mehew~~ received credit on the Third Ward books for this \$2,400.00. (XII 1830) Mr. Mehew had no knowledge whatever concerning this entry. He is not a member of the 3rd Ward but is a member of the Welling Ward which is 20 miles to the south. (VI 798-799)

Mr. Johansen thought that it might cover a transaction in which members of the church fed cattle and the gain was credited to the members as donations towards the building fund. (VII 922)

On January 7th, 1960, the Association issued a cheque in the amount of \$750.00 in favour of Lethbridge Third Ward. This cheque was charged to Johansen's ledger account J6. Johansen could find no record of having received credit for this amount in the books of the church. (VII 923)

According to the evidence of the financial clerk of the Third Ward, this \$750.00 was recorded as a donation by the supervisor Mr. Hatch and two receipts, one for \$684.50 and the other for \$65.50, were issued to Mr. Hatch. (XII 1835-1837)

On January 27th, 1959, there are journal entries in the Johansen-Mehew N.A.B. J08 account where it is debited with \$36,471.75, Ray Johansen's J6 account is credited with \$16,788.00 and Mehew's N.A.B. M100 account is credited with \$19,683.75. These entries were made to adjust the accounts as a result of sales of cattle.

On the same day, January 27th, 1959, Johansen financed another feeding arrangement with Mehew covering 114 heifers and 24 steers. As a result Johansen's account J6 was debited with \$11,602.86 and Johansen-Mehew N.A.B. account J08 was credited with \$11,602.86. Sales of these cattle were made and credited to Johansen's main ledger account J6. Finally, on July 22nd, 1959, by Journal entry J49, \$6,735.66 was debited to Johansen's J6 account and credited to Johansen-Mehew J15 account. This completed all the real feeding transactions so far as Johansen's ledger card J6 was concerned.

On October 5th, 1959

Johansen's account J6 was debited with \$20,809.06

J. B. Merrill's account M18 was credited with \$20,809.06

On April 12th, 1959

Johansen's account J6 was credited with 21,859.06

J.B.Merrill's account M18 was debited
with 21,859.06

plus interest of \$655.16

By reason of these entries, Johansen gained \$1,050.00 and Merrill lost \$1,050.00.

Johansen received a cheque for this amount of \$1,050.00 from the Association on April 11th, 1959.

Johansen denied all knowledge of these entries. He said that Hatch told him that this payment of \$1,050.00 represented the final settlement on the Mehew feeding deals. (VII 925-928) Mr. Merrill also denied that he had any knowledge of the transaction.

On April 12th, 1960, when the Merrill transaction was completed, there was a debit of \$534.76 in the Johansen J6 account.

On May 19th, 1960, there was a debit placed in the Johansen account J6 described as:

"contract cattle V49 J5 \$ 20,000.00"

On the same day the ledger account of John Thiessen T200 was credited with \$20,000.00.

The explanation of this and the transactions to follow was given by Mr. Johansen in (VII 929-930). Mr. Hatch told him that John Thiessen wanted more cattle, and that if he, Johansen, would permit Thiessen to charge these additional cattle to Johansen's account, Thiessen would guarantee all expenses and pay to Johansen 75 cents a head per month for calves and \$1.50 a head per month for yearlings. Johansen said that he told Hatch that if Hatch got the approval of the Board of Directors, he,

Johansen, would go along with it.

Thiessen said that he thought that Johansen was actually putting up the money. (XI 1607-1613)

On January 31st, 1961, the \$20,000.00 transfer referred to above was reversed.

Thiessen's account was debited with \$21,149.59

Johansen's account was credited with \$21,149.59

On April 11th, 1961, a journal entry V137 J78 was made whereby Johansen's account was debited with \$25,000.00 and Thiessen's account was credited with \$25,000.00.

On August 15th, 1962, 16 months later, this entry was reversed by a credit of \$29,411.73 to Johansen's account and a debit for the same amount to Thiessen's account.

On October 4th, 1962, another journal entry J23 marked "transfer of cattle" was made whereby Johansen's account was debited with \$25,000.00 and Thiessen's account was credited with \$25,000.00.

In the flurry of entries on March 19th, 1964, this last transfer is reversed. Johansen's account was credited with \$27,735.78 and Thiessen's account was debited with the same amount.

As a result of this last entry, Johansen's ledger account 76 reached a "nil" balance.

Johansen received the following credits and cheques from the above described transactions:

he wiping out of his debit balance of
April 12th, 1960, in the amount of \$ 534.76

Cheques from the Association to him and
debited to his ledger account J6 -

September 6, 1960 900.00

January 26, 1961 450.00

July 19, 1961 1,125.00

Cheques from the Association to him and
debited to John Thiessen's Ledger Card T200 -

February 1, 1962 1,282.50

October 23, 1962 1,500.00

June 10, 1963 1,500.00

\$ 7,292.26

The voucher covering the cheque for \$900.00 has a memo:-

"Sept. 6, 1960 Thiessen a/c March 18 - September 18/60
@ 1.50 900.00"

The cheque dated October 23rd, 1962 for \$1500.00 is covered
by a memo on the voucher:-

"October 23/62 9 mos. 1500.00"

The cheque dated February 1, 1962, for \$1,282.50 is covered
by a memo on the voucher

"John Thiessen 280 calves @ 75

July 31 - Jan. 31 \$ 1,282.50"

Johansen said that he told Hatch on August 15th, 1962, that
he was sick of the whole thing and that he wanted to quit.

11-9811

However, on October 4th, 1962, the last debit of \$25,000.00
was charged to Johansen's account. He received a cheque for

\$1500.00 on October 23rd, 1962. He said that Hatch told him at that time, "This settles up to the time that you are through". (VII 935)

Mr. Johansen received another cheque for \$1500.00 on June 10th, 1963. He said he didn't know the last transfer of credit had been made at the time. Hatch assured him on this date "he was clear and out completely". (VII 938)

Mr. Johansen received a statement from the auditor in January 1964 that he owed the Association some \$27,000.00. He said that Nilsson, the fieldman, assured him that he had counted over 400 cattle in Thiessen's feedlot so Johansen signed the acknowledgment to the auditors. He said that Hatch promised to reverse the journal entry but did not do so before the collapse of the Association. (VII 939)

As a result of the debit of \$27,735.78 to Thiessen's account on March 19th, 1964, Thiessen owed the Association \$40,905.54 as of November 14th, 1964.

Johansen never spoke to any of the members of the Board, nor to the bank manager, nor the auditor concerning these transactions. (VII 939; 941)

To sum up these transactions from which Mr. Johansen received \$1,050.00 from the Merrill account and \$7,292.26 from the Thiessen account.

"A I paid no expenses.

Q So this money was just free and clear?

A Yes.

Q And the understanding was that there was no risk whatsoever to you?

A Yes."

Evidence of Johansen (VII 941)

The loss of \$27,735.78 by Thiessen plus \$8,342.46 paid to Johansen were due to the action of Hatch in concocting this scheme whereby additional cattle were placed with Thiessen. The facts were concealed from the Board and the Bank.

It is difficult to understand people making arrangements whereby someone gets something and a substantial amount of something for nothing.

HORACE A. JONES

Mr. Jones is a farmer living four miles east and one mile south of Picture Butte. He farmed about a section of land, including rented land. About 200 acres were irrigated. He used very little of the crops produced on his farm, apart from beet tops, in his cattle feeding operations. Practically all the hay and grain fed to cattle in his feeding operations were purchased.

Mr. Jones has been a member of the Association since prior to 1950.

Between 1950 and 1955 a nil balance appeared from time to time in his ledger card J10.

In September 1956 the Association entered into a cattle feeding arrangement with Steinbergs Ltd., a large super market firm in Montreal. ~~Five~~ feeders, one of whom was Jones, entered into the arrangement and signed separate contracts covering the transaction. Jones fed 500 steers between September 1956 and June 1957. Steinbergs Ltd. became dissatisfied with the arrangement and cancelled it. It was alleged that Jones had a large amount of feed in his possession at the end of this feeding contract. The feed remaining had been finally paid for by the Association. Jones now denies that he had the amount of feed in his possession for which he was charged. He was charged with \$17,650.00. He thinks that he only had feed to the value of \$2,500.00 on hand.

The Association charged this feed to Jones in a very strange

manner. None of the feed was charged to ledger card J10 in the first instance.

The auditor made a series of Journal entries on July 31st, 1958. They were as follows:

Members Ledger (2)

H. A. Jones 9 loads @ \$1,000.00	\$ 9,000.00
Ray Bullock	<u>\$ 4,000.00</u>
	\$13,000.00

N. A. Business (19)

H. A. Jones (Payable \$1,000 per load)	\$ 8,650.00
J. Klassen (selling cattle)	<u>\$ 2,200.00</u>
	\$10,850.00

Two new ledger cars were set up to receive these debits to Jones.

One card called "H.A. Jones Feed Account" was opened on July 31st, 1958 with the item

"Journal - Auditor 20 Debit \$9,000.00"

No number was given to this card.

On July 31st, 1959, this \$9,000.00 was transferred to the J10, the main ledger account of Jones. Therefore two years after the end of the Steinberg Contract, this \$9,000.00 finally turned up in the ledger account of Jones J10. On the same day, July 31st, 1959, the sum of \$897.25 was charged to J10 covering interest and reserves. This no doubt included the interest of \$540.00 on this \$9,000.00, for one year which was noted in red ink on the "Feed Account" card but not debited.

The debit and credit of the \$9,000.00 item were the only

entries on this card.

Another ledger card also called "Jones H.A. Feed a/c" was opened on July 31st, 1958 and given the number J11. The opening entry read:

"Central Feed Dr. \$8,650.00."

This card remained dormant for nearly a year. It will be remembered that the year end of the Association in 1959 was July 31st.

On July 22nd, 1959 the sum of \$6,600.00 was credited to account J11. This amount was taken out of the membership ledger account K 14 of Owen King. King denied that he ever knew that this money had been removed from his account (V111 1212) or credited to Jones. He didn't know Jones. Jones had no knowledge concerning the transaction (V111 1086).

This left a debit balance of \$2,050.00 in J11. This amount was transferred to another ledger account which was opened on July 31st, 1959 in the names of H. A. Jones and S. Kline J14.

I will leave comment concerning further entries made in J11 for the moment.

But I should complete the story of the \$6,600.00 so far as Jones is concerned.

The \$6,600.00 which belonged to King remained to the credit of Jones from July 22nd, 1959 to August 31st, 1960. On August 31st, 1960 \$396.00 being interest for one year at 6% was added to the principal amount making a total of \$6,996.00. This amount was debited to the main ledger account of Jones

J10 and credited to the ledger account of Central Cattle Company C67. Central Cattle Company was an unregistered trading name of the Supervisor Hatch and the Meeks Brothers.

Although Jones was debited with \$6,996.00 on August 31, 1960, Hatch again debited Jones with \$6,000.00 on March 19, 1964 under Journal Voucher 517 and the name "King" was noted on the voucher. Apparently King owed Hatch \$600.00 for some pasture.

However, Hatch later acknowledged his liability for this item. Jones was credited with the \$6,000.00 on July 31st, 1964.

Between June 12th, 1959 and August 27th, 1959, Jones took possession of 139 animals on an arrangement whereby he was to receive 21 cents a pound for the gain placed on these animals. The fieldman for the Association, Nilsson, stated that he, Hatch, and the cattle dealer, S. Kline, were to split any profit made on the deal. The cost of the cattle was \$27,114.63. The cattle were sold between August 5th (1 steer) and November 6th, 1959 for a total net price of \$34,167.56. The net difference between selling and buying price was \$7,052.53. The gain due to Jones was \$3,912.30. This left a profit to be divided among Kline, Hatch and Nilsson of \$2,713.13.

Nilsson filed a statement, Exhibit F18, with supporting vouchers to support his evidence. In this statement he allowed \$400.00 for interest to the Association for the use of \$27,114.63 of Association money for four months. He said the resulting profit of \$2,313.13 should have been divided equally among

Kline, Hatch and himself.

Nilsson said that he received his share of the profit in the form of an automobile. This automobile transaction is entered in Jones ledger account J11 which it will be remembered had a nil balance for the moment on July 31st, 1959. But later in the day on July 31st, 1959 a journal entry J53 reading "Interest J53 \$509.21" was debited to J11.

Then on October 21st, 1959, an entry reading: "Four Corners Body Shop Fol. 12810 \$740.00" was debited to Jones J11. This was the purchase price of a DeSoto automobile which Nilsson purchased from Four Corners Body Shop. Nilsson said that Hatch told him that he Nilsson had this money coming from the Kline Jones feeding deal and Hatch gave him the cheque in favour of the Body Shop. (V111 1142-1147).

There was another entry made in Jones J11 on November 11th, 1959. This read:

"Jesse Burrows Fol. 12904 Dr \$169.27".

This item covered payment of a hot water tank and accessories installed in the home of the Supervisor Hatch. (Evidence of Burrows X1 1681-1684).

These items totalled \$1,418.48. On May 2nd, 1960 this amount was debited in a multiple journal entry to Jones J10 and to Gary Jones (also marked J10; Gary Jones being a son of H. A. Jones). J11 now had a nil balance which remained until December 19th, 1960.

Jones denied that he had any knowledge of the Body Shop and Burrows items and denied that he had authorized that they

be charged to his account (V111 1120-1124).

If the evidence of Nilsson was correct, then he and the Supervisor Hatch, in concert with a livestock dealer Kline were using in excess of \$27,000.00 of funds belonging to the Association in a cattle feeding deal with Jones. They made a secret profit and carried on this arrangement without the knowledge of the Board and the Bank.

The evidence of Williams was that the matter of secret deals had been discussed with the President and Hatch in 1955. (I 176-179) and that it was understood that Hatch would cease taking part in any more of them.

It is necessary to return once again to July 31st, 1959. It was a very busy day in the life of the Jones' ledger cards.

Another ledger card J14 was opened on July 31st, 1959 in the names of H. A. Jones and S. Kline. The opening four entries were as follows:

		Dr	
July 31	Transfer of Contract Cattle	J50	15,808.22
July 31	Contract Cattle	J51	30,169.78
July 31	Journal	J52	19,507.52
July 31	From Jones Feed a/c	J11	2,050.00

This left a debit balance of \$7,195.96.

Then on October 13th, 1959 the following entry appeared in J14:

Tollestrup Construction 12784 Dr \$882.42.

Mr. Jones said he knew nothing about this debit (V111 1129)

Jl4 now had a debit balance of \$8,078.38. This debit and the debit in Jl1 covering the automobile and hot water tank were charged back to Jones and his son Gary in a Journal Entry dated May 2nd, 1960 reading as follows:

Dr Gary Jones	Jl0	\$ 5,000.00
Dr H. A. Jones	Jl0	4,496.86
Cr H. A. Jones Feed a/cJl1		\$ 1,418.48
Cr H. A. Jones and S. Kline Jl4		8,078.38

(To close out contract cattle to
Gary Jones advance and H.A. Jones
a/c V41)

I have been unable to relate all these entries in Jl4 Jones and Kline with the vouchers covering the contract feeding and the purchase by the Association of 139 animals for \$27,114.63 between June 12th, 1959 and August 27th, 1959 and their sale between August 5th, 1959 and November 6th, 1959. Perhaps there were other feeding contracts about which no evidence was given.

It was to be hoped that ledger cards Jl1 and Jl4 would remain dormant.

But on June 24th, 1960 the following entries appeared on page 66 of the Journal

Dr S. Kline contracts Jones Jl4	\$18,018.08
Nelson N14	12,151.70
Cr Cattle	\$30,169.78

See Drover (18518) charged cattle

This appears to be a strange entry. The \$30,169.78 is the exact amount of the credit which was placed in the Jones

Kline J14 ledger card on July 31st, 1959 yet on June 20th, 1959 only \$18,018.08 was charged to J14 and the balance, \$12,151.70 was charged to Ray Nelson N14.

In any event on October 20th, 1960 another debit was entered in J14 being \$864.80 for interest. The memo in the Journal on page 71 stated that this was interest to July 31st, 1960. The result was a total debit of \$18,882.88.

Then an amazing series of entries occurred. The Association received two cheques from C. W. Heninger on December 19th, 1960. There were no transactions of any kind between Jones and Heninger. Nevertheless, one cheque in the amount of \$17,267.00 was credited to Jones J10. The other cheque in the amount of \$18,582.88 was credited to that old Steinberg feed residue ledger card J11. On March 31st, 1961 this amount of \$18,582.88 was transferred from H. A. Jones J11 to the ledger card of H. A. Jones and S. Kline Ledger a/c J14. But in the meantime the Association had returned both amounts to Heninger by cheques dated January 5th, 1961, both charged to Jones' main ledger account J10. This transaction compares favourably with the famous shell game in which one bets the manipulator that one can guess as to, under which of three shells, the pea is.

The credit of \$18,582.88 to Jones and Kline J14 nearly wiped out the debit created by the journal entries on June 20th, 1960 and October 20th, 1960. The balance of \$313.56 debit was charged to Jones main account J10 on December 31st, 1961.

No further entries were made after this time in either J11 or J14.

But once again a return must be made to July 31st, 1959. When the debit of \$9,000.00 was entered in J10, the debit balance in J10 was \$65,869.44. This was far in excess of the contract limit of \$20,000.00. Something had to be done.

As previously related \$15,808.22 was transferred to Jones and Kline J14.

On the same day \$16,251.32 was transferred to the account of E. Bishop and Son B520 by Journal entry marked "Transfer of Cattle". There is no memo in the journal to indicate the number of cattle.

This debit of \$16,251.32 remained in the account of E. Bishop and Son until December 9th, 1961, a period of approximately 2 1/2 years. During that time E. Bishop and Son received cheques from the Association in total amount of \$3,015.92. As a result of these five cheques to E. Bishop and Son, the addition of interest due to the Association, reserves and supplies, the debit of \$16,251.32 grew to \$21,337.84. On December 9th, 1961 this latter amount was transferred along with an account of Ray Nelson to the accounts of C. W. Heninger and E. S. Heninger.

The Journal entry J2 V 207 read as follows:

Dr	E.S. Heninger	NAB H 16	\$ 9,850.99	
Dr	C.W. Heninger	NAB H115	30,407.62	
Cr	E Bishop & Sons Members			
		B520		\$21,337.84
Cr	Ray Nelson	NAB N 14		6,256.90

Cr Ray Nelson & Meats NAB N18

12,663.87

V207

transfer of 168 cattle

162661 @ 24.75 40,258.61

The cattle transferred from Bishop to Heninger must have been rather old as they had been in the possession of Bishop & Son for 2 1/2 years. But as shown by the evidence of Bishop and Heninger all these transactions were of a fictitious nature.

I am not sure how the amount of \$21,337.84 was charged back to Jones.

It is very difficult to follow the transfers of debits and credits among the accounts of:

H.A. Jones membership account J10

H. A. Jones Feed Account J11

Jones J.A. Feed Account No#

H.A. Jones and Gary Jones J10

Jones and Kline J14

Gary Jones

Owen King K14

Central Cattle Co. (Hatch) C67

C.W. Heninger H115

E. Bishop & Son B520

But when all the transactions were completed, when all the feeding of cattle was completed, when all the transfers of accounts (without the transfer of cattle) had taken place, Jones owed the Association \$72,219.91 as of October 29th, 1964.

A summary of Jones' main ledger account J10 from January 1st, 1959 to October 29th, 1964 covering cattle charged, cattle sold and advances is as follows:

<u>Year</u>	<u>Cattle Charged</u>	<u>Cattle Sold</u>	<u>Advances</u>
1959	\$102,184.84	\$138,744.96	\$ 40,475.00
1960	29,228.09	89,443.63	34,000.00
1961	64,701.14	90,163.15	45,000.00
1962	69,070.93	77,605.94	47,000.00
1963	44,331.47	97,900.50	39,500.00
1964	<u>11,574.95</u>	<u>42,489.28</u>	<u>2,000.00</u>
	321,091.42	\$536,346.96	207,975.00
Gain	<u>215,255.54</u>	Excess of Gain over advances	<u>215,255.54</u> \$ 7,280.54

Some other debits and credits in the account J10 include:

January 9, 1959	Weiller & Williams	\$10,000.00
January 28, 1959	Asplund	445.00
February 3, 1959	Weiller & Williams	5,300.00
March 20, 1959	Gary Jones	1,335.80
July 31, 1959	Steinberg Feed	9,000.00
March 7, 1960	Gary Jones	5,000.00
May 3, 1960	Close out contract	4,996.86
July 31, 1960	King to Central Cattle	6,996.00
January 5, 1961	Heninger	18,582.88
January 5, 1961	Heninger	17,267.12
June 26, 1961	Bishop Interest	1,025.46
December 31, 1961	Journal	2,000.00

September 7, 1962	Imperial Life	4,102.62
March 19, 1964	Difference on Cross Entries	2,743.01

CREDITS

July 31, 1959	Transfer	16,251.32
July 31, 1959	Transfer	15,808.22
December 19, 1960	Heninger	17,267.12
December 30, 1960	Alsop Contract	1,869.60
January 10, 1961	Weiller Williams gain	1,998.60
February 2, 1962	Weiller Williams gain	2,810.50
February 7, 1962	Campbell gain	5,349.67
March 14, 1962	Campbell gain	8,071.68
April 9, 1962	Alsop gain	1,724.45

In addition to feeding Association cattle, Jones fed cattle at various times on contracts with the following firms and persons who supplied the cattle.

Weiller Williams

Alsop

Campbell

The Association advanced money to Jones so that he might purchase feed in order to feed these contract cattle as well as Association cattle. The advancement of money to Jones to buy feed for contract cattle on these various contracts was therefore loans to Jones. There was no provision in the contract between Jones and the Association for such loans. In fact it would appear that any such advances to purchase feed for other

than cattle owned by the Association was contrary to Section 14 of the Act.

In the case of the Kline contract in 1959, the Association paid for the cattle as well.

Jones was in financial difficulty at the conclusion of the Steinberg deal. He never paid off the \$17,650.00 which was added to his indebtedness on July 31st, 1958 as a result of this deal. He was charged interest of \$1,000.00 a year on these items. In addition, he paid Bishop an extra \$3,015.92. On July 8th, 1960 the debit in Jones' main ledger card was \$17,669.69. The transfers of \$16,251.32 and \$15,808.22 out of the account had taken place on July 31st, 1959.

Jones gave a mortgage to the Association on July 8, 1960 covering the South East Quarter of Section 31, Township 10, Range 20, West of the 4th M. to secure the repayment of \$18,000.00. He agreed to pay this amount with 6 % interest as follows:

\$5,000.00 on October 15th, 1961

5,000.00 on October 15th, 1962

5,000.00 on October 15th, 1963

3,000.00 on October 15th, 1964

Notwithstanding the abundance of ledger accounts in Jones' name, a new ledger card was not set up for this mortgage although under its terms none of the indebtedness included in it was due but had been spread over a term of years.

On September 7, 1962 a cheque of the Association was

made payable to the Imperial Life Assurance Company of Canada. This cheque was used by Jones to pay off a land mortgage which he owed to the Imperial Life Assurance Company.

In considering this account in relation to the suggestion that the losses in these deficient accounts were caused by falling markets, we find that the debit in Jones' account on December 31, 1962 was \$102,211.73. This is probably the case where the greatest deception took place in reporting the status of a member's account to the Bank.

The debit balance in the account on March 31st, 1963 was \$106,701.18. The supervisor reported to the Bank that the debit in the account on that day was \$46,701.18. He misrepresented the account by \$60,000.00. He also represented to the bank that the low point in this account had been \$9,234.31 and that this occurred on September 9th, 1962. The truth was that the account was \$59,234.31 on that date.

On February 19th, 1963 Jones had a debit balance of \$98,490.46. He reported that he had 230 cattle on feed although the ledger showed that he had 335 on hand. The Association used the 230 figure in carrying on the balance from that date. If these partly fattened cattle were valued at \$200.00 each on February 19th, 1963 Jones was in debt to the Association over \$50,000.00. This indebtedness occurred before the drop in prices in 1963 and 1964. Part of the increase in the debt over the next year was caused by the interest being charged and compounded month by month on this debt.

This pitiful mess has resulted in Jones losing a quarter

section through foreclosure proceedings and he has been saddled with a debt which I believe he cannot pay.

The cause of it all is the course of action followed by the Supervisor. He mixed accounts. He transferred accounts. If Nilsson is to be believed he used Jones' account as a vehicle with which to engage in secret dealings with Kline with Association money. He issued a cheque to the Imperial Life for \$4,102.62 without any right or authority. He deceived the Bank and the Board to a greater extent in this account than in any other account. He led Jones down the garden path to financial ruin.

E. BISHOP AND SON

The following are excerpts from the minutes of the Board of Directors.

1957

August 19 E. Bishop and son accepted but supervisor to further investigate their credit

September 18 Bishop and son approved by Bank and own report favourable.

Bishop and Son fed association cattle until April 7th, 1959 when their account B520 showed a nil balance after a cheque was issued to Bishop and Son in the amount of \$1,728.14.

On July 31st, 1959, this being the year end of the Association, the ledger account of H. A. Jones of Picture Butte was credited with \$16,251.32 and the ledger account of E. Bishop and Son was debited with \$16,251.32 under Journal entry J50 which was marked "Transfer of Cattle". This entry plus another journal entry on the same day transferring \$15,808.22 from the main ledger account J10 of Jones reduced his debit balance from \$65,536.44 to \$33,476.90.

Then Bishop and Son received the following cheques from the Association:

November 25, 1959	\$300.00
January 20, 1960	150.00
March 7, 1960	150.00
March 24, 1960	300.00
March 28, 1960	150.00

May 2nd, 1960	150.00	
July 24, 1960	450.00	
August 30, 1960	300.00	
January 3, 1961	400.00	
March 18, 1961	800.00	
June 27, 1961	<u>65.92</u>	1/2 beef
Total	\$3,015.92	

On December 9th, 1961, as a result of these entries and charges for interest, private reserves and supplies, the ledger account of E. Bishop and Son had a debit balance of \$21,337.84.

Then by an exciting piece of legerdemain (no pun on the word ledger is intended) the following journal entry V207 was made on December 9th, 1961.

Dr	E. S. Heninger NAB	H16	9,850.99	
Dr	C. W. Heninger NAB	H15	30,407.62	
Cr	E. Bishop & Sons members a/c	13520		21,337.84
Cr	Ray Nelson & Meats Inc.	N18		12,663.87
transfer of 168 cattle				
162661 @ 24.75 40,258.61				

E. Bishop did not have any cattle. In any event they were rid of the debit balance. As mentioned in the chapter on Ray Nelson, this phantom herd was charged to E. S. Heninger and C. W. Heninger. We are not concerned here with the question of the manner in which the item was returned to the Jones account. E. Bishop and Son had received \$3,015.92 without

investing any money.

On August 31st, 1962, \$30,000.00 was debited to the ledger account of E. Bishop and Son and a similar amount was credited to the account of Leonard Mehew. This transaction took place by means of a Journal entry J22 marked "transfer of cattle".

On the year end, December 31st, 1963 the following journal entry V477 was made:

Dr	L. & W. Mehew M015	\$73,454.17	
Cr	E. Bishop & Son B520		\$34,382.19
Cr	L. Mehew M15		39,071.98

In the meantime E. Bishop & Son had received the following cheques charged to their account:

November 7, 1962	\$450.00
December 11, 1962	450.00
March 16, 1963	450.00
April 4, 1963	200.00
April 29, 1963	<u>135.34</u>
	1,685.34
July 9, 1963 charged to L. Mehew Account	<u>1,014.66</u>
Total	<u>\$2,700.00</u>

The balance of the difference between \$34,382.19 and \$30,000.00 was made up in interest charges credited to the Association.

In the two transactions with Jones and Mehew E. Bishop & Son received \$3,015.92 plus \$2,700.00, in total \$5,715.92.

Herbert Bishop said that he had never seen the ledger card of the Association containing the details of his transactions with the Association (VII 944). He said that Hatch approached him and made an agreement similar to the one made with Johansen. Hatch told him that some feeders had feed but not enough credit to obtain cattle and he wished to use the credit of E. Bishop and Son (established with the Association) to place additional cattle with these feeders. In return Bishop and Son were to receive so much per head per month. (VII 947).

In return for these moneys, Bishop and Son invested no money and paid no interest charges.

The result of these transfers of the debts of Jones and Mehew in total amount exceeding \$46,000.00 and in payments to E. Bishop and Son of nearly \$6,000.00 meant a total loss to the Association of \$52,000.00 and accumulated interest on these items.

The primary cause of these losses was the deception of Hatch in arranging these transfers without the knowledge of the Board and without the knowledge of the Bank. I am sure that the Bank would not have agreed to the increases in credit which occurred as a result of these transfers of credit.

ANDREW SORENSON

Andrew Sorenson is a farmer in the Raymond District. He became a member of the Association prior to 1950 and has been a member ever since.

On January 1st, 1961 his ledger card showed a debit balance of \$10,054.25 and 133 cattle on hand.

A brief and approximate summary of his ledger account from January 1st, 1961 to October 15th, 1964 is as follows:

Debit Balance January 1, 1961	10,015.19	
Cattle placed for feeding	35,219.56	
Cash advances	60,120.07	
Interest	4,913.72	
Private Reserves	536.40	
Life Insurance	360.00	
Veterinarian charges	141.30	
Pasture	4,010.00	
Trucking	565.00	
Supplies	948.81	
Miscellaneous	676.00	
Cattle Sales		96,131.21
Balance owing October 15, 1964		<u>21,121.08</u>
	117,506.05	117,252.29

The cash advances equalled the difference between the selling price of the fat cattle and the cost of the feeder cattle.

Mr. Sorenson said that, at the request of Hatch he pastured

his cattle on the Indian Reserve. He said he lost about 15 head on the Reserve. He also said that the cattle sold on June 12th, 1963 had been held for too long a time. A computation of cattle placed on feed and cattle sold shows that Sorenson has accounted for cattle placed with him.

Sorenson did not keep a separate account on his cattle feeding operations. The money received from the Association went into a general bank account and all farming and living expenses were paid from his account (V111 1047). He did not keep books (V111 1048). Mr. Hatch never refused an advance when Sorenson asked for it (V111 1041).

I believe that if the Association had had someone looking after the credits and equities of the members, this loss would have been substantially less than it was.

M. MORIYAMA

Mickey Moriyama farms near Raymond with his mother.

Mrs. M. Moriyama was accepted as a member on February 16th, 1960.

The ledger card M25 shows a nil balance on November 22nd, 1961 with Moriyama receiving a cheque in settlement on that day in the amount of \$6,090.18.

436 animals at a cost of \$54,258.38 were placed with Moriyama between November 22nd, 1961 and December 31st, 1962. Sales during the same period covered 297 animals for a net of \$77,742.51. Cash advances to Moriyama amounted to \$53,224.00 with supplies totalling \$3,126.50.

In 1963-1964 380 animals at a cost of \$50,730.65 were placed with Moriyama and sales covered 340 animals at a net price of \$77,850.78. Moriyama received cash advances in the amount of \$45,172.00. Interest and reserves amounted to \$5,444.69.

The debit balance on October 15th, 1964 was \$42,081.15 with 182 head on hand. Moriyama believed these animals will sell for \$36,000.00.

On December 17th, 1962, Hatch issued a cheque of the Association to Moriyama in the amount of \$18,000.00. Moriyama used this money to pay a bank loan which he owed to the Royal Bank of Canada.

JOHN PEREVERZIFF

John Pereverziff is a trucker living in Lethbridge. In 1958 he was employed by the Association to deliver some lambs in Saskatchewan. Apparently the intended purchaser refused to take delivery and Pereverziff hauled them back to Alberta. The supervisor prevailed upon Pereverziff to place the lambs on a farm operated by Pereverziff in the Cardston district. The lambs were charged to Pereverziff on an N.A.B. ledger card P10 at \$4,614.62. Mr. Pereverziff never became a member of the Association. He sold lambs in the fall of 1959 in the amount of \$1,473.40 and in the fall of 1960 in the amount of \$690.25. He made other payments to the Association from time to time and his ledger card showed an indebtedness to the Association of \$1,794.99 on November 2nd, 1959.

In the spring of 1960, according to the evidence of Pereverziff, Hatch approached him and said, "'How are things going?'" and I said, 'Not too bad and not too good.' He said, 'Do you think that a new truck would be the answer?'" I said, 'I don't know.'" (V1 873).

The result was that Pereverziff had a new truck registered in his name, insured in his name, but it was supposed to be owned by the Association. (V1 873-874)

Pereverziff's old truck was traded in on the new truck. The old truck was subject to a lien note in favour of G.M.A.C. for an unpaid balance of \$2,940.00.

The Association paid \$2,940.00 to G.M.A.C. and the sum

of \$5,200.00 to Renfrew Motors from whom the new truck was purchased. These payments were made on March 30th, and March 31st, 1960. The result was that the ledger card of Pereverziff showed that he owed the Association the sum of \$10,764.90.

There were many debits and credits in the ledger card between March 31st, 1960 and February 12th, 1962. The ledger card showed a debit balance of \$11,538.74 on that date.

On February 13th, 1962, the Association gave Pereverziff a cheque for \$2,430.81. This cheque was endorsed by Pereverziff and paid over to Freuhauf Trailers. According to Pereverziff this amount paid off the balance owing on two trailers which had been seized by Freuhauf.

The debit balance in P10 was now \$13,969.55. The account continued with debits and credits until May 4, 1962 when the Association issued a cheque to Pereverziff in the amount of \$1,050.00. Pereverziff said that he cashed the cheque and used the money to purchase motor vehicle license plates.

This made a debit balance of \$16,704.37. The account continued to show a debit balance of between \$16,000.00 and \$18,000.00 until March 22nd, 1963, when the Supervisor decided to distribute some of the wealth then in the hands of the Canadian Imperial Bank of Commerce.

Between March 22nd, 1963 and May 16th, 1963 he caused the following cheques to be issued and charged to the account of Pereverziff.

March 22, 1963 Industrial Acceptance Corporation 400.00

March 29, 1963	Central Livestock Cartage	3,000.00
April 5, 1963	Holding Pens	2,068.00
April 18, 1963	Watrous Equipment	2,090.21
April 30, 1963	Pereverziff	2,093.21
May 16, 1963	Central Livestock Cartage	2,400.00

The debit balance in the ledger account was then \$29,598.19.

Central Livestock Cartage was the name given to the trucking activities of Pereverziff at that time. Hatch set up a set of books with signing authority on cheques to Pereverziff and Anderson (one of the employees of the Association).

The result was that no money from the trucking operation came into the Association ledger account P10 from that time on although the Association account was used to pay another account of Pereverziff to Jubilee Motors of Raymond, Alberta, in the amount of \$3,808.99.

The explanations of Pereverziff concerning the above mentioned cheques was as follows:

- (1) He believes the cheque to I.A.C. paid the balance due on a motor job on a truck.
- (2) In his evidence on January 5, 1965, Pereverziff said that the cheque for \$3,000.00 was used for license plates and insurance, \$1,600.00 for license plates and \$1,400.00 for insurance. (V1 878-879). Returning to the witness box on January 6th, 1965, he said that it had been deposited in the bank account of Central Livestock Cartage and

used to pay expenses. (V11 911-912).

- (3) The cheque in favour of the Holding Pens for \$2,068.00 was to reimburse the Holding Pens for a cheque for a similar amount which had been paid to Freuhauf Trailers on a new trailer purchased by Pereverziff in the fall of 1962.
- (4) The cheque in favour of Watrous Equipment in the amount of \$2,091.91 paid for a repair job on a G.M.C. diesel truck.
- (5) The cheque in the amount of \$2,093.00 was cashed by Pereverziff. He said he took this money to the Motor Vehicle License Bureau and paid the money to the Bureau for license plates.
- (6) The cheque in the amount of \$2,400.00 was deposited in the account of Central Livestock Cartage and used for expenses.

The cheques in favour of Jubilee Motors of Raymond, Alberta, were issued as follows:

August 17, 1963	\$ 613.65
September 26, 1963	500.00
October 30, 1963	500.00
November 20, 1963	500.00
December 16, 1963	500.00
January 20, 1964	500.00
February 7, 1964	<u>695.34</u>
	<u>\$3,808.99</u>

Mr. Pereverziff's explanation of this transaction was very obscure to me.

On pages 908-909, Volume VI, the following evidence was given by Pereverziff.

"Q Why did you pay Jubilee Motors another \$1,600.00?

A There was a purchase between a truck and a trailer from Jubilee Motors.

Q Oh, you got something else?

A One was Harold Kuisman's truck and the other was a trailer purchased on the same account.

Q Oh, so that you got a trailer and you owed \$1,600.00?

A No, more than that.

Q And then Lethbridge Central Feeders paid it by \$500.00 a month?

A Yes.

Q What happened to the trailer?

A I sold it.

Q To whom?

A To a fellow in B.C.

Q What did you do with the money?

A I kept it at home.

Q I thought that you just told us that Lethbridge Central Feeders Association owned your equipment really.

A Not this particular piece of equipment."

which probably explains the answer he gave to a question on page 891.

"A No, when that account came up I would have gone to jail. I couldn't pay that account. I didn't know that the account was being paid off that way because I tried to pay it off before any of this money was paid."

The Bank manager knew nothing about the Pereverziff account until after March 17th, 1964 (III 386-382).

The members of the Board of Directors who gave evidence, Mr. Houlton (IV 538-539), Mr. Stevens (IV 552), Mr. Paxman (IV 574), Mr. Keeler (IV 590), said that they knew nothing at all about the Pereverziff account.

e.g. Mr. Paxman IV 574:

"Q Did you have any knowledge prior to March the 17th of this year of the Pereverziff account?

A No, that was a complete surprise to me that we were in the transport business."

On November 14th, 1963 the Pereverziff account was credited with the following item:

Central Livestock 2037	\$13,696.14
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and again on December 3rd, 1963:

Central Livestock 2103	1,197.32
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Were these monies owing by the Association to Pereverziff or were they loans by the Association to Pereverziff? Actually, neither was the case.

H. G. Conrad delivered cattle to the Association and they were sold for his account at a net figure of \$13,696.14.

Instead of placing the proceeds in Conrad's account, they were placed to the credit of Pereverziff.

The same thing occurred in reference to the \$1,197.32. Cattle were sold for the account of Rex Anderson. The money was credited to Pereverziff instead of Anderson.

A cheque in the amount of \$3,696.14 was issued to Conrad on December 20th, 1963 and a cheque for \$10,000.00 was issued to him on January 3rd, 1964. Mr. Anderson received his money by cheque dated January 3rd, 1964.

The result of these credits was to reduce the debit balance in the Pereverziff account over the year end from about \$33,000.00 to \$21,577.12. The only reason for these manipulations so far as the Association was concerned would be, in my opinion, to confuse the auditors.

When the Association ceased operations, Pereverziff turned his equipment over to the Association. The equipment was sold on time payments with a net cash payment of \$2,025.23 to the Association. I am informed that further payments of approximately \$8,000.00 will be made to the Association by the purchasers of the Association.

The resulting loss of \$25,000.00 was due wholly to the actions of the Supervisor who without the sanction or knowledge of the Board and the Bank continued to make these large advances to Pereverziff who, from the onset of dealings commencing in 1958, showed no ability whatever in meeting his obligations.

